



**October 1, 2000**



**Indiana**  
**Department of Revenue**  
**Annual Report**

The Indiana Department of Revenue's Annual Report for Fiscal Year 2000 (FY00) includes July 1, 1999 through June 30, 2000 and is published in accordance with the Taxpayer Bill of Rights. Its purpose is to make information accessible to the taxpayers, as well as to the Governor and the legislators of the State of Indiana.

This year's front and back covers were designed by Kathy Bond, the Department's Outreach Coordinator and also Editor of this year's Charity Gaming Annual Report. Kathy has designed numerous annual report covers for the Department, as well as brochures and other publications.

Editor of this FY00 Departmental Annual Report is Cheryl Denk, Media Relations/Publications Director. Questions regarding this report may be directed to her via e-mail at [cdenk@dor.state.in.us](mailto:cdenk@dor.state.in.us), or at the mailing address listed inside for the Indianapolis office (Room 248).

Visit the Department on the web at: <http://www.state.in.us/dor>, or in person at either its Main Office in Indianapolis or any of its eleven District Offices around the State. See inside for addresses and telephone numbers.

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## LETTER FROM THE COMMISSIONER

October 1, 2000

The Honorable Frank O'Bannon  
Governor, State of Indiana  
State House, Room 206  
Indianapolis, Indiana 46204-2797

Dear Governor O'Bannon:

It is my pleasure to present to you a copy of the Indiana Department of Revenue's eleventh annual report. The report provides you and the Indiana Legislative Council with a summary of the Department's accomplishments and also meets all legal requirements set forth by Indiana Code 6-8.1-1-8, which is known as the Indiana Taxpayer Bill of Rights.

Also, as Commissioner, I attest that the Department is in compliance with Indiana Code 6-8.1-3-2.5, which states that the Department may not include the amount of revenue collected or tax liability assessed in the evaluation of an employee; nor may it impose or suggest production quotas or goals for employees based on the number of cases closed.

Sincerely,

A handwritten signature in cursive script, reading "Kenneth L. Miller".

Kenneth L. Miller  
Commissioner

# ABOUT THE INDIANA DEPARTMENT OF REVENUE

## Mission Statement

The Indiana Department of Revenue will administer the tax laws of the State of Indiana in an equitable and courteous manner to promote the highest degree of public trust and voluntary compliance.

## Motto

"Committed to public trust and service"

## Department Divisions

### Administration

*Sections: Commissioner, Deputy Commissioner, General Counsel to the Commissioner, Director of Operations.*

The four main components of this Division assist in overseeing the entire agency.

### Audit

*Sections: Audit Billing/Inquiries, Audit Review, Audit Selection, Operations, Travel and Supplies, Special Tax, Field Auditing and Taxpayer Services in District Offices.*

This Division promotes voluntary compliance throughout the state and the country in all Indiana tax areas through quality examinations. It is also responsible for the Department's 11 District Offices, which are located throughout Indiana.

### Collections

*Sections: Correspondence, Billings/Agent, Phone Pursuit, Title/Licensing.*

This Division provides centralized management in the collection of delinquent tax liabilities.

### Compliance

*Sections: Aeronautics, Bankruptcy/Responsible Officer, Charity Gaming/Not-For-Profit Organizations, Individual/Withholding, Strategic and Utility/Refund.*

This Division researches, develops, tests and implements various projects that identify non-filing, noncomplying taxpayers for corporate, individual, sales/use, food and beverage, county innkeepers, fuel and withholding taxes. All information for filing registration of not-for-profit organizations is conducted by this Division, as well as the approval and issuance of all charity gaming licenses (e.g. raffles, bingo, door prizes, pull-tabs and punch boards). Records are researched for bankrupt individuals and businesses to identify tax liabilities for the purpose of submitting "proof of claims" to the bankruptcy courts. Outreach through educational seminars and projects and programs are conducted in an effort to promote "voluntary" compliance by Indiana taxpayers.

### Controller

*Sections: Budget Analyst, Business Administration, Accounting/Counties, Electronic Funds Transfer (EFT), Cigarette Tax and Other Tobacco Products, Mail Services.*

This Division handles budgeting and purchasing for the Department under the guidance of the Controller. Other responsibilities include depositing of tax revenues, preparing appropriate reports and conducting all related banking functions. The Controller's Office administers those taxes collected by the state and returned to the county of origin. This Division also handles the inventory and sale of cigarette tax stamps.

### **Criminal Investigation**

*Sections: Case and Data Management, Charity Gaming Enforcement, Controlled Substance Excise Tax, Employment Agency Licensing, Internal Affairs, Motor Fuel Tax Evasion, Motor Vehicle Excise Tax, and Operations and Investigations.*

The Division's primary mission is to detect fraud and prosecute tax evaders. It is responsible for conducting investigations into alleged violations of Indiana tax laws and determining civil liabilities or presenting evidence for criminal prosecution in an effort to increase voluntary compliance.

The majority of these investigations involve the collection and failures to remit trust taxes. The Division also monitors charity gaming operations throughout the state and works in conjunction with the Indiana State Police to monitor the unlawful use of dyed fuel on the highways. The Division also cooperates with prosecuting attorneys throughout the state in assessing the controlled substance excise tax on those illegally possessing certain drugs and monitors and enforces the collection of the Motor Vehicle Excise Tax from Hoosiers who plate their vehicles outside Indiana. This money is returned to the county where the taxpayer legally resides. The Department also conducts background investigations on all employment prospects and investigates alleged employee wrongdoing.

### **Information Technology**

*Sections: Administrative Services, Operations, Systems & Programming, Technical Support.*

This Division supports the Department's efforts and goals by creating and administering computerized tax processing systems for the other divisions of the Department. This Division operates with a goal of providing tax processing systems that are increasingly easier to use; constantly improving efficiency and service to the taxpayer; and maintaining secure and confidential records.

### **Legal**

*Sections: Appeals, Litigation, Inheritance Tax, Fiduciary Income Tax, and Protest Review.*

This Division includes the Department's legal staff, which oversees the appeals process from an original tax protest to the Indiana Tax Court. This Division also contains the Inheritance Tax Section, which collects tax on all taxable transfers of property resulting from the death of an Indiana resident, or a nonresident decedent, with real or tangible personal property located in Indiana.

### **Motor Carrier Services**

*Sections: Customer Service Center, Motor Carrier Road and Fuel Use Taxes, International Vehicle Registration Plan, Safety & Insurance Registrations, Commercial Driver's Licensing, Oversized & Overweight Vehicle Permitting, Accounting & Fund Distribution.*

This division provides all of the above tax and registration services to the motor carrier community. We also collect and distribute revenue to other states and Canadian provinces in accordance with international agreements. Equally important is our effort to work in partnership with the Federal Motor Carrier Safety Administration and other stakeholders to promote and increase safe highway operations, resulting in fewer commercial carrier accidents and fatalities.

The Motor Carrier Services Division operates under one administration and one "roof". It is located at the AmeriPlex Office Park on the southwest side of Indianapolis, offering a "One-Stop-Shop" for the trucking community.

### **Office of the Taxpayer Advocate**

*Sections: Taxpayer Advocate and staff.*

The Office of the Taxpayer Advocate is designed to address complex and special tax problems. The primary goal is to correct exceptional tax problems. The secondary goal is to identify and restructure departmental processes and procedures which may have created or contributed to legitimate problems. A taxpayer's problem is considered exceptional if 1) attempts at resolution through normal departmental channels have been unsuccessful; or, 2) an ongoing, continual problem exists with the filing of tax returns; or, 3) continual assessments result from systematic processing problems.

## **Personnel**

*Sections: Training, Administration, Affirmative Action, Wellness, Payroll/Benefits.*

This Division administers all “human resource” aspects within the Department, including employee and supervisor training, wellness programs, recruiting, payroll and benefits, labor relations, and governmental regulatory administration. It also assists with employee morale programs.

## **Public Affairs**

*Sections: Media Inquiries and Publicity, Form Development and Revisions, Outreach Education, Practitioner Services, Tax Preparation Software approval, Indiana TaxFax, and Internet.*

This Division handles all media inquiries; internal and external education; and tax form revision. This division also administers the Indiana TaxFax form distribution system, coordinates content for the Department's website and approves software companies who produce Indiana tax preparation software.

## **Quality Assurance**

*Section: Quality Systems.*

This Division oversees the development, testing and ongoing changes to the Department's Returns Processing System (RPS). The Quality Assurance Division also monitors system output to ensure standards of quality and to assist in problem identification.

## **Returns Processing Center**

*Sections: A/R Payments, Batch and Edit, Unidentified Checks, Check Processing, Forms Processing, Mail Open and Sort, Mail Out and Forms Order, Print Shop, Records Management, Logistic Support, Data Entry, Corporate Income Tax, Individual Income Tax, Systems Services, Fuel and Environmental, LAN Support, Administration and Administrative Support.*

The Returns Processing Center is charged with the responsibility of receiving and processing all of the tax returns sent to the Department of Revenue. That responsibility includes, but is not limited to, receipt, opening, sorting, depositing any associated remittances, editing, data entry and error correction for nearly all of the 43 taxes and fees administered by the Department. In addition, the Center posts accounts receivable payments to the proper accounts and provides printing services, not only to the Department of Revenue, but to other Departments within state government. The Center has responsibility for storage and retrieval of all tax documents and provides complete mail-out services of blank tax forms and publications provided by the Department. In addition the Returns Processing Center is responsible for the administration and processing of all Fuel and Environmental Taxes and all Corporate Income Taxes.

## **Tax Policy**

*Sections: Policy Research, Fiscal Analysis, Technical Tax Research, Legislative Affairs.*

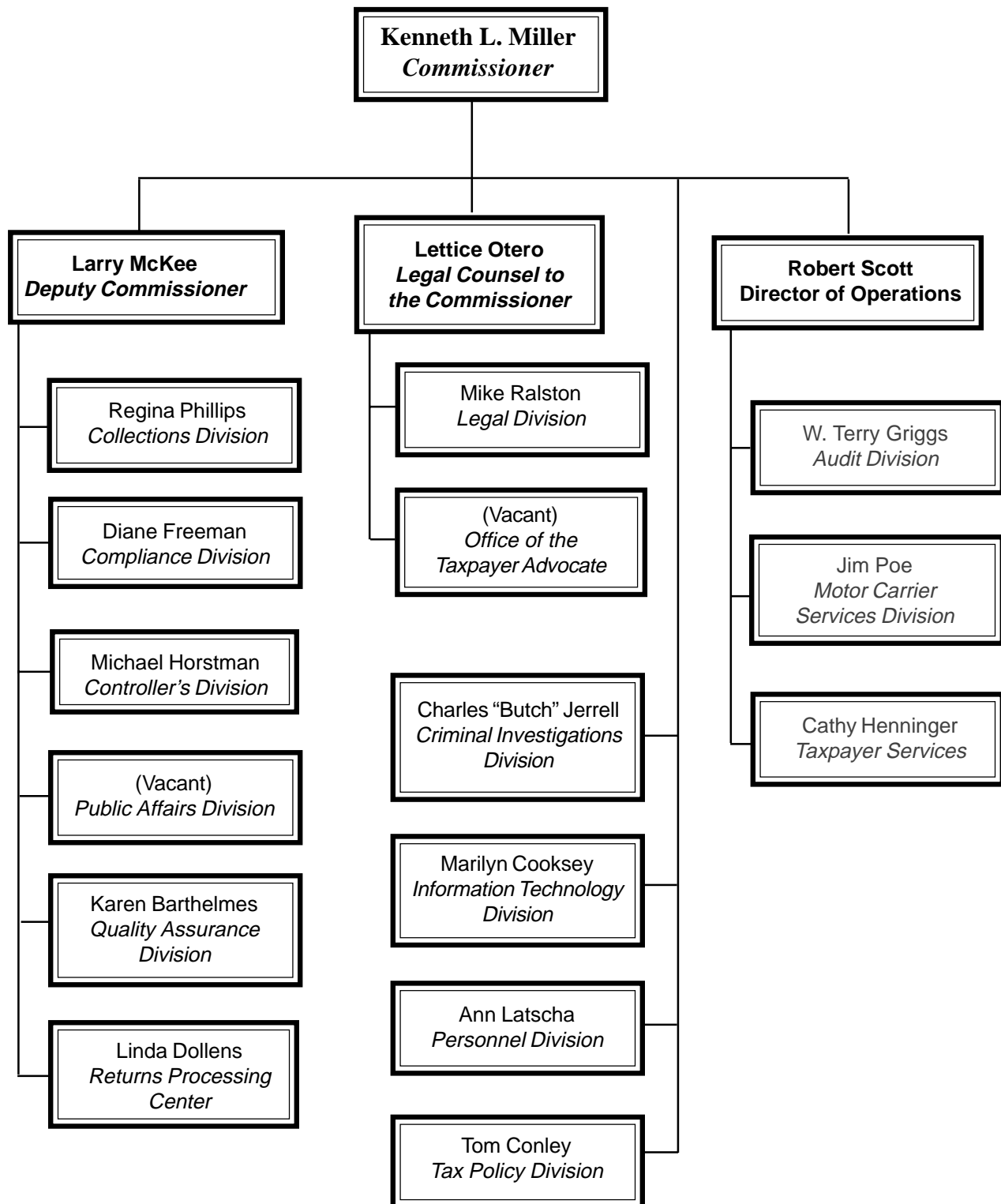
This Division primarily works with legislative efforts, serving as a legislative liaison for the Indiana General Assembly. This division also is responsible for all voluntary compliance agreements that are completed with previously unregistered taxpayers. The Division issues rulings, policy directives and some information bulletins, as well as helps to determine the correct interpretation of the law. The Division provides tax statistics to both federal and state agencies as well as to other states.

## **Taxpayer Services**

*Sections: Assistance Center, Correspondence, PC Support, Research & Support, Telephone Contact, Automated Taxpayer Information System.*

This Division provides free-of-charge walk-in and telephone assistance to Indiana taxpayers. This Division combines many direct contact functions generally involving three major tax types: individual income tax, sales, and withholding taxes.

## DEPARTMENTAL STRUCTURE



***The Indiana Department of Revenue has 948 employees.***



## TAX HELP TELEPHONE NUMBERS

### AUTOMATED INFORMATION LINE

Check on the status of refunds;  
prerecorded tax topics; tax liability  
balances.

(317) 233-4018

### COLLECTION/LIABILITY INQUIRIES

(317) 232-2165

### CORPORATE TAX INFORMATION

(317) 615-2662

### INDIANA TAXFAX SYSTEM

Call from the telephone portion of your  
FAX machine to retrieve tax forms  
and information bulletins. Available  
24 hours a day.

(317) 233-2329

### INDIVIDUAL INCOME TAX INFORMATION

(317) 232-2240

### INTERNET ACCESS

Access to forms, information bulletins  
and directives, tax publications, e-  
mail, the PC-Filing Program, et al.

<http://www.state.in.us/dor/>

### MOTOR CARRIER SERVICES DIV.

(317) 615-7200

### SALES TAX INFORMATION

(317) 233-4015

### TAX FORMS ORDER LINE

Available 24 hours a day

(317) 615-2581

### TELEPHONE DEVICE FOR THE DEAF (TDD)

(317) 232-4952

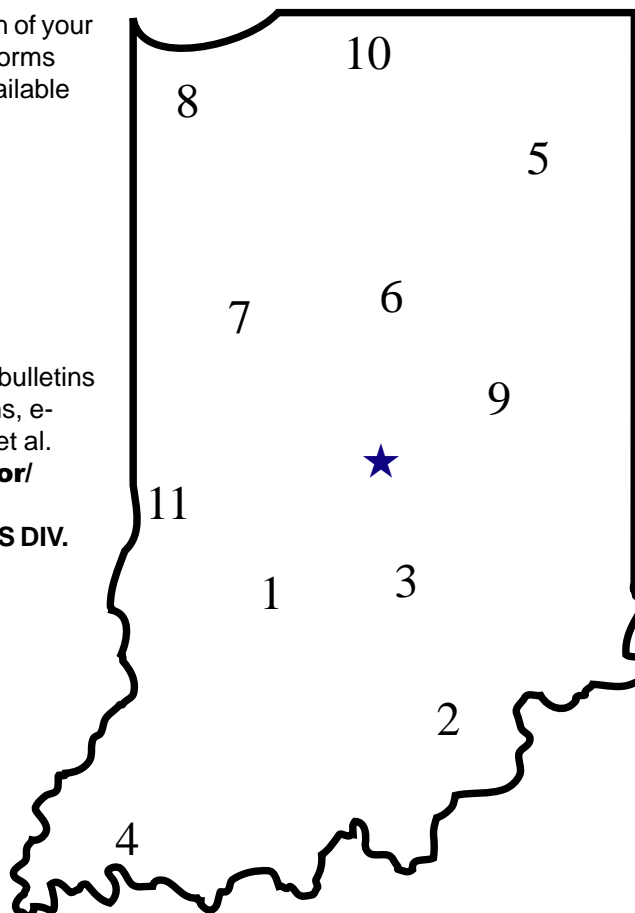
### WITHHOLDING TAX INFORMATION

(317) 233-4016



## INDIANAPOLIS (MAIN OFFICE)

Indiana Government Center  
North, Room N105  
100 N. Senate Avenue  
Indianapolis, IN 46204  
(317) 232-2240



## DISTRICT OFFICES

### 1) Bloomington

410 Landmark Avenue  
Bloomington, IN 47043  
(812) 339-1119

### 2) Clarksville

#### Physical Location

1446 Horn Street  
Clarksville, IN 46129

#### Mailing Address

P.O. Box 3249  
Clarksville, IN 47131-3249  
(812) 282-7729

### 3) Columbus

3138 N. National Road  
Columbus, IN 47201  
(812) 376-3049

### 4) Evansville

500 S. Green River Rd.  
Goodwill Building  
Suite 202  
Evansville, IN 47715  
(812) 479-9261

### 5) Fort Wayne

5800 Fairfield Avenue  
Suite 200  
Fort Wayne, IN 46807  
(219) 456-3476

### 6) Kokomo

117 E. Superior St.  
Kokomo, IN 46901  
(765) 457-0525

### 7) Lafayette

100 Executive Dr.  
Suite B  
Lafayette, IN 47905  
(765) 448-6626

### 8) Merrillville

8368 Louisiana Ave.  
Suite A  
Merrillville, IN 46410  
(219) 769-4267

### 9) Muncie

3640 N. Briarwood Lane  
Suite 5  
Muncie, IN 47304  
(765) 289-6196

### 10) South Bend

1025 Widener Lane, Suite B  
South Bend, IN 46614  
(219) 291-8270

### 11) Terre Haute

30 N. 8th St., 3rd Floor  
Terre Haute, IN 47807  
(812) 235-6046

## **A YEAR IN REVIEW: FISCAL YEAR 2000 -- July 1, 1999 - June 30, 2000**

### **Why has Indiana Implemented Two-Dimensional Bar Coding?**

The Indiana Department of Revenue is nationally recognized as the first state revenue agency to use two-dimensional bar coding in the processing of tax returns.

Indiana receives over 2.8 million individual tax forms each year, half of which are received in the two weeks surrounding April 15th. Use of electronic filing has replaced over 529,000 of these paper documents, and is growing every year, but not fast enough. Many of the Indiana taxpayers are still more comfortable filing a paper document through the mail. While this reluctance to filing electronically exists, other means are necessary to bridge the gap from paper filing to electronic filing. More than half the forms received by the Indiana Department of Revenue are computer generated. This means that although the information was available in electronic format at one point, the taxpayer is printing it off, which requires the Department to re-key the form, introducing errors, delaying the processing, and consuming data entry time and money.

Two-dimensional bar coding bridges the gap by providing the speed and accuracy of electronic filing with the peace of mind associated with sending a traditional paper return. With the implementation of the client-server integrated tax system complete, the Department continues to look for ways to encourage more taxpayers to file returns electronically, using two-dimensional bar coding, over the Internet, or other ways that allow the processing of returns without manually inputting tax information.

### **Exactly What is a Two-Dimensional Bar Code?**

The Indiana bar code initiative makes use of two-dimensional bar codes. Ordinary, or one-dimensional bar codes, store data in a horizontal dimension, or left to right. The height of the bar code allows the code to be scanned from a variety of angles and distances, and allows for printing defects or damage. By decreasing the height of several one dimensional bar codes, and then stacking them on top of each other, a vertical dimension is added, creating a two-dimensional bar code. Two-dimensional bar codes are read by moving beam scanners which raster, or scan, the code from top to bottom. Error correction and data redundancy can also be built into the code to allow for printing defects or damage. The Indiana application is using Symbol

Technology's PDF417 bar code, which allows up to 2000 to 3000 characters to be encoded in a single bar code approximately the size of a business card, or smaller.

### **What was Implemented in Indiana?**

For the 1998 filing year, Indiana piloted the IT-40, individual tax form with several software vendors to include a two-dimensional bar code. This form was chosen because of the volume of nonelectronic returns, the narrow processing time requirement, and the large amount of data that needs to be captured. Because forms with the two-dimensional bar codes are printed rather than handwritten, there is easily enough space for the bar code on the top of the first page of the existing form next to the name and address. For the current tax year, the program was expanded to include the IT-40EZ and the IT-40PNR (part-year resident).

### **How Was Two-Dimensional Bar Coding Implemented?**

The Indiana Department of Revenue, working with Andersen Consulting and Symbol Technologies, provides tax preparation software vendors with the piece of software (DLL) they needed to print the two-dimensional bar code as they print a completed tax form. The tax preparation software is then used by individuals and paid preparers to complete their tax form (including schedules and up to 10 W2's). When the user decides to print, the complete tax form is printed with a two-dimensional bar code in the upper right hand corner. This bar code contains all of the information from the Form, schedules and W2s. The tax forms, schedules, and W2s are then signed and mailed via the Postal Services as usual by the taxpayer.

When received by the Indiana Department of Revenue, the bar coded returns and associated payments are scanned directly into Indiana's integrated tax system for processing. The integrated tax system contains the software necessary to decode and decompress the data contained in the two-dimensional bar code. These returns are then validated for compliance.

The total project cost less than \$55,000 for scanning equipment and took 200 workdays to complete. Additional forms will continue to be added with no additional hardware cost and less effort than the pilot program. The software already provided to the software vendors can be reused for additional forms within the Indiana Integrated Tax system.

## **What Benefits have been Achieved?**

Two-dimensional bar coding reduced errors and turn-around time for approximately 189,000 taxpayers during the 1999 filing year, while saving at least \$171,000. A batch of 90 paper returns typically takes 4 hours to key and validate. A batch of 90 bar coded returns can be captured in 10 – 15 minutes with an error rate of less than two percent. This has allowed the Indiana Department of Revenue to stay current on scanning returns as they are received and to immediately correct the errors.

In addition, the Department also incorporated the bar code into its free Internet filing program (I-File). Twenty-five percent of the taxpayers who completed a return over the Internet last year opted to print a hard copy for mailing purposes instead of sending it electronically. Taxpayers still receive most of the advantages of an electronically-filed return, due to the inclusion of the bar code, at no additional time or expense to them.

Indiana's success in implementing this project has been closely watched by other state revenue agencies throughout the United States. In 2000, other states, including Illinois, Missouri, Delaware and Rhode Island, utilized the same technology for their state returns. For the 2001 filing season, at least 10 states are expected to utilize bar coding.

## **When Should this Technology be Deployed?**

The greatest benefit of this technology will be received if this technology is deployed to tax forms where:

- There is a significant barrier to requiring everyone to file electronically or a requirement exists to receive a paper document including other evidence;
- The volume of returns prepared by computer before filing justifies the cost of developing alternative data capturing techniques; and
- The amount of data desired to be collected justifies the cost of developing alternative data capturing techniques.

## **The Indiana TaxFax System**

During Fiscal Year 2000, the system answered 17,557 calls, which was 40% down from the 1999 fiscal year. This decrease coincides with the increased development by the Department and increased usage by taxpayers of the Department's Internet site (at URL <http://www.state.in.us/dor/>) and the Indiana Package IN-X CD-ROM for obtaining tax forms and instructions.

Since both the Department's web site and the Package IN-X CD-ROM require a computer to access, the Department continues to develop and improve the TaxFax sys-

tem for taxpayers without computer and/or Internet access.

## **All Major Credit Cards Accepted with I-File**

New for FY00 was the Department's acceptance of payments by Visa, MasterCard, American Express and Discovercard for taxpayers using the I-File Internet filing method for their Indiana individual taxes. Also, as in previous years, Discovercard could be used for other forms of filing of current year individual income taxes and MasterCard/Visa for delinquent taxes.

During filing season 2001, the acceptance of major credit cards will be expanded to include all types of filing of individual income taxes, not just I-File.

## **Increased Telephone Services**

New telephone technology was implemented in FY00 throughout all Divisions of the Department, allowing increased accessibility for taxpayers who call for assistance. This technology has enabled the Department to meet the peaks of telephone inquiries in a timely manner, while allowing for the flexibility of use of the same staff personnel for additional projects as needed. This endeavor was a purchase shared with the Bureau of Motor Vehicles and Workforce Development, insuring enhanced customer service to Indiana taxpayers.

## **Accounts Receivable System**

Final Phase of the Department's Returns Processing System (RPS) development began in 1999, with a roll-out scheduled for January, 2001 of a new Accounts Receivable system. The result will be an increase in bills issued to taxpayers, thus speeding the collection of taxes. The system will also house a predictive dialer that will serve as a cornerstone to our phone pursuit efforts. Another addition to be noted is the ability to offset IRS refunds when taxpayers owe us money.

Enhancements continue to the Returns Processing System, as we now have all major tax types processed here. User and taxpayer suggestions are reviewed by Quality Assurance. This division continues to support system testing and review of changes. In addition to rolling out new tax year processing for all the taxes collected in RPS.

## **Returns Processing Center**

The Returns Processing Center obtained a new home and new equipment in FY00. In November, 1999 the Returns Processing Center moved from its location in

Park Fletcher to a new building at AmeriPlex. In addition Logistic Support (Long Term Storage) was moved from our facility at 30<sup>th</sup> Street to the new AmeriPlex location. The Logan Building is a state of the art facility with improved storage space and racking, more work space, improved security, more parking, and a work flow design that will aid the department in doing its work more efficiently.

The planning of the new facility took nearly a year from design to completion and then another month or so for the actual move to take place. Because this facility is responsible for the deposit of nearly all the checks received by the department and receipt and data entry of all tax returns it takes a lot of planning to design the new facility and then to move everything.

The move took place in stages to allow for an orderly transition. For example, we made deposits on our new NCR 7780 transports on Wednesday then on Thursday, which was a holiday we tore down the equipment, and had it moved and reinstalled at the new location, so we were ready to make a deposit on Friday. The move took much planning and coordination with the movers, the equipment installers and our staff.

Prior to the move, we took possession of our two new NCR 7780 high speed transports used to process checks and our new Opex 50 and 51 mail handling equipment. It took us about nine months to obtain this new equipment, but it has already made us a more efficient operation. The new equipment was scheduled for installation in July and August; it was thereafter moved and reinstalled at the new location in November.

All in all, in made for a busy Fall, the results have been well worth the planning; and we are happily settled into our new home.

## **Hoosier Taxpayers Received Larger Refunds Earlier in the 2000 Filing Season**

The Indiana Department of Revenue gave larger state tax refunds to Hoosier taxpayers and sent them out faster than ever.

The total number of refunds processed between January 1 and May 31, 2000, was up almost 250,000 over that period last year: 1,702,620 in 2000 for 1999 tax returns, as compared to 1,457,392 in 1999 for 1998 returns. The average refund during that same time period was up almost 36 percent, or just over \$46 higher than the previous year's average.

The larger refunds were attributed to the new tax deductions, credits and exemptions passed by the General

Assembly in 1999 and signed into law by Governor Frank O'Bannon. The new Homeowners Residential Property Tax Deduction affected a great many Hoosiers, as did the new Earned Income Credit and additional exemptions for both dependent children and the elderly. Also, the renter's deduction was increased.

The larger number of refunds being distributed earlier in the year was probably because more Hoosiers filed electronically and chose the Direct Deposit option. In the past, only those who filed their returns electronically could choose to have their refunds deposited directly into their bank accounts. In 2000, almost all taxpayers had that option. And electronic filing increased again, which greatly expedites processing; thereby getting refunds out even faster.

In fact, 1,427,193 refund checks were mailed by early June, 2000, compared to 1,339,276 checks at the same time the previous year, an increase of over six percent, or almost 88,000. By contrast, 275,427 Hoosier taxpayers asked to have their refunds deposited directly to their bank accounts, an increase of 133 percent from 118,116 the previous year.

## **Personnel Division**

The Wellness Coordinator has been working with the Compliance Division, Charity Gaming Section, on the Indiana Problem Gambling Awareness Program.

Two Wellness Fairs were held during the fiscal year. The combined participation was 68% of employees in the Indianapolis area. Information shared at these fairs included demonstration/screening/samples from dermatologist, dietitians, oral health, hands, flu and pneumonia, bone density, depression, arthritis, acupuncture, color analysis, blood pressure, body fat, and hearing.

The Heart Alive program is a comprehensive heart health education and cholesterol screening program designed to last over a 12 month period. This program was completed during this fiscal year with approximately 186 Indianapolis area employees completing the program.

There was also a summer activity program called "Work-out with Wellness". Over 140 employees signed up for this individual activity program and 71 finished all the requirements successfully.

In December, 1999 another open enrollment was held for insurance. 180 employees made new elections or changes to their current policies.

During the past fiscal year the Personnel Division has continued to be involved in the reclassification of positions within our Department. We are continuing to work

on a special recruitment and retention program for our IT staff as well as our Field Auditors.

We continue to meet on a regular basis with the Labor / Management Committees of both the Unity Team and AFSCME. Our office has also been the clearinghouse for grievance disputes resolution as well as fielding questions from our management staff.

We have also continued to administer the Worker's Compensation Program as well as field complaints regarding ADA, Sexual Harassment, and Affirmative Action.

The Personnel Division also developed and implemented the Compressed Work Week Program as well as the Summer 2000 Energy Conservation Program. Our division coordinated the following programs as well.

Bring Your Child to Work Day  
SECC Campaign  
Hispanic Job Fair  
Black Expo  
Mail Opening Project  
Blood Drive

### **Workshops on How to Raise Money Conducted for Not-for-Profit Organizations**

The Indiana Department of Revenue teamed up with several other state agencies, Indiana and Purdue Universities, Indiana Gas Company and numerous tax and accountant professional societies to help sponsor workshops around the state for not-for-profit organizations on how to raise money. The workshops were conducted by the nationally recognized, Indianapolis-based Quality for Indiana Taxpayers, Inc. (QFIT).

QFIT, which has been in existence for over 13 years, assists not-for-profit organizations, as well as for-profit businesses and specializes in new businesses. Its resource center is located at 429 N. Pennsylvania Street in Indianapolis.

### **Increased Communication with Taxpayers**

Starting in Spring, 2000, the Department began sending copies of letters sent to taxpayers whose IT-40 returns were found to have errors, as well as to their tax preparers -- as long as the taxpayer or preparer checked the "Yes" box on the tax return for authorization for the Department to discuss the tax return with the preparer.

This service should help eliminate the problem of the taxpayer contacting the practitioner too late to forestall a second billing by the Department. By being notified of

the problem at the same time as the taxpayer is, the practitioner can resolve the error earlier in the billing cycle.

Department letters show line by line errors but apply only to IT-40 returns, at this time, not to estimated payments.

### **Department's Annual Tax Conference**

The 1999 Annual Tax Conference was held December 1 and 2. The annual conference is designed to provide Indiana Department of Revenue personnel with information relevant to the agency's latest developments and services, ongoing projects, as well as reviews current procedures for processing tax returns.

### **Public Affairs**

A \$30,000 Innovations in American Government grant (in connection with the IRS) was used for a radio promotion of the Fed/State TeleFile filing program to Indiana college students in Bloomington, Lafayette, Muncie, South Bend and Terre Haute. The TeleFile program allows taxpayers to receive refunds faster and saves the State higher processing costs.

Articles were contributed to "La Voz Latina," a bi-monthly Spanish language newspaper, on various tax issues.

The internally-produced video on bar coding, "How It Works," has been shared with numerous other states around the county.

# **TAXPAYER BILL OF RIGHTS**

## **Public Law 332-1989**

### **(Special Session)**

#### **Indiana Taxpayer Rights and Responsibilities**

All Indiana taxpayers have certain rights and responsibilities that correspond to the Indiana tax laws. The Taxpayer Bill of Rights sets forth these rights and responsibilities for Indiana Taxpayers:

- I Quality taxpayer service
- II Taxpayer Advocate to help you in the preservation of your rights
- III Taxpayer education and information
- IV A fair collection process
- V Appointed hearing time and representation
- VI Demand Notices
- VII Warrants for collection of tax
- VIII Judgement liens against property
- IX Annual Public Hearing and Department Report
- X Taxpayer responsibilities

#### **TAXPAYER ADVOCATE OFFICE**

The Taxpayer Advocate Office, formerly known as the Problem Resolution Program (PRP), was established in January, 1990. Indiana Code (IC) 6-3-8.1-11-3 provides for a Taxpayer Advocate, who administers a staff of nine employees. The Taxpayer Advocate reports to the Legal Counsel.

It is the responsibility of the Taxpayer Advocate Office to ensure that all Indiana taxpayers are treated fairly and to resolve recurring problems or complaints in which taxpayers' previous attempts at resolution were unsuccessful. The Taxpayer Advocate Office acts as a last resort within the Indiana Department of Revenue for taxpayers who need assistance. When specific areas of recurring internal problems are identified, recommendations are made for internal remedial procedures. In addition, recommendations are made to administration as a result of recurring problems that indicate the need for taxpayer education.

The Taxpayer Advocate Office assists those taxpayers who claim hardship and can prove that the Department's normal procedures create great difficulty or inability for them to meet both Departmental requirements and their own basic needs. In addition, the Taxpayer Advocate reviews offers in compromise presented to the Department, due to medical or financial hardship. The Taxpayer Advocate is authorized to use unprecedented methods of resolution to provide taxpayers with alternative methods for meeting their responsibilities, thereby pro-

viding them with a light at the end of the tunnel and promoting voluntary compliance.

The Taxpayer Advocate Office also reviews any complaints presented by taxpayers regarding alleged unfair treatment by Departmental employees.

Requests may be submitted in writing to: Indiana Department of Revenue, Taxpayer Advocate Office, P.O. Box 6155, Indianapolis, Indiana 46206-6155, or by e-mail to: TAXAdvocate@dor.state.in.us.

Special projects completed by the Taxpayer Advocate Office during Fiscal Year 2000 included the following:

- Members of the Indiana Taxpayer Advocate Office gave a presentation at the first Joint State and Federal Taxpayer Advocate Conference in Kansas City, Missouri in October, 1999. The Conference was very informative and presented various concepts as to the responsibilities of a Taxpayer Advocate Office. Members of the Indiana Taxpayer Advocate Office seemed to have the most varied duties.

- The Taxpayer Advocate Office continued its efforts in assisting the Hispanic community. In association with the Department's Legal Counsel and Public Affairs Division, the Office published a series of articles in Spanish in an Hispanic newspaper. Information provided was tax oriented and aimed at promoting voluntary compliance of Spanish-speaking peoples with Indiana tax laws.

- The Taxpayer Advocate Office continued its efforts in providing the IT-40 (Indiana Individual Income Tax Return and instructions) in both audiotape and Large Print formats. Purchase of a dubbing system afforded the Department more control over the audiotape reproduction process. The audiotape and Large Print formats are part of the Department's continuing efforts to help promote understanding and independent filing of Indiana State tax returns by vision and hearing impaired Hoosiers.

# 2000 LEGISLATIVE SUMMARY -- NEW AND AMENDED STATUTES

*Regular Session*  
*2000 Indiana General Assembly*  
*Session Days: November 16 - 23, 1999*  
*Reconvened: January 10, 2000*  
*Adjourned: March 3, 2000*

## TAX CREDITS

SEA 171, SECTIONS 1 through 3.

Effective: January 1, 2000 (retroactive).

Citations Affected: IC 4-4-6.1-1.1; IC 6-3.1-7-2.

Provides that the term "zone business" includes an entity that claims certain tax benefits available to businesses located in an enterprise zone. Specifies that a taxpayer may claim the enterprise zone loan interest credit only if that taxpayer pays a registration fee, provides additional assistance to urban enterprise associations required of zone businesses, and complies with requirements adopted by the enterprise zone board.

SEA 8, SECTION 1.

Effective: January 1, 1999 (retroactive).

Citations Affected: IC 6-3-1-11.

Updates references to the Internal Revenue Code in certain Indiana income tax statutes.

SEA 14, SECTION 13.

Effective: On passage.

Citations Affected: IC 6-3.1-4-6.

Provides that the research expense credit against gross income taxes, adjusted gross income taxes, and supplemental corporate net income taxes expires December 31, 2002, rather than December 31, 1999.

HEA 1354, SECTION 1

Effective: On passage.

Citations Affected: IC 6-3.1-13-27.

Provides that the economic development for a growing economy (EDGE) board may award an EDGE tax credit for a project located in Hamilton County to a nonprofit organization that is a high growth company with high skilled jobs if the organization satisfies certain financial and other conditions.

## INHERITANCE TAX

HEA 1008, SECTION 5.

Effective: On passage.

Citations Affected: IC 6-4.1-10-3.

Among other things, revises the procedure for refunding inheritance tax that has been illegally or erroneously collected.

## FINANCIAL INSTITUTIONS TAX

HEA 1003, SECTIONS 1 through 6.

Effective: January 1, 1999 (retroactive).

Citations Affected: IC 6-5.5-2; IC 6-5.5-4.

Treats resident financial institutions the same as non-resident financial institutions for purposes of the financial institutions tax, by providing that the tax is imposed upon the apportioned Indiana income of all financial institutions. (Former law imposed the financial institutions tax on all the adjusted gross income of resident financial institutions.)

## INNKEEPER'S TAXES

SEA 216, SECTIONS 1 through 4.

Effective: On passage.

Citations Affected: IC 6-9-23-3; IC 6-9-23-8; IC 6-9-33.

Allows the Allen County fiscal body to impose a supplemental food and beverage tax at a rate not to exceed 1%, but does not allow the current Allen County food and beverage tax and the supplemental tax to be in effect at the same time. Stipulates the uses to which the revenue from the new tax must be put (related to specified public buildings). Establishes conditions under which the current food and beverage tax or the new supplemental food and beverage tax will terminate.

## MOTOR CARRIER SERVICES

SEA 470, SECTION 1.

Effective: July 1, 2000.

Citations Affected: IC 8-2.1-24-18.

Provides that the commercial vehicle-marking requirements in the Code of Federal Regulations that apply to intrastate carriers do not apply to motor vehicles operated by intrastate carriers or guest users as a farm vehicle or for personal purposes.

HEA 2022, SECTIONS 1-25

Effective: January 1, 2000

Citations Affected: IC 6-1.1-2-7; IC 6-6-5.5; IC 6-8.1-1-1; IC 6-8.1-3-1; IC 6-8.1-4-4; IC 6-8.1-5-2; IC 6-8.1-7-1; IC 6-8.1-10-4; IC 9-14-1-4; IC 9-17-2-1; IC 9-18-2-1,15,16,41; IC 9-18-9-2; IC 9-29-3-3; IC 12-13-8-2; IC 12-16-14-1; IC 12-19-4-2; IC 21-3-1.7-2.

COMMERCIAL VEHICLE EXCISE TAX – This law was enacted to replace the "rolling stock" property tax. It

imposes a tax due contemporaneously with registration based on the weight and type of commercial vehicle being registered. The rate of tax is established via statutory formula. See IC 6-6-5.5.

HEA 1789, SECTIONS 1-7, 14-17

Effective: July 1, 1999

Citations Affected: IC 6-2.5-7-1,3; IC 6-6-4.1-4, 6-6-4.1-4.5,4.7,4.8; IC 6-8.1-4-4.

**PROPORTIONAL USE CREDIT** – This law replaces the old proportional use exemption. Carriers are required to be certified to claim the credit. The refund is subject to a statutory cap and subsequent proration. It is a refundable credit, not an exemption. See IC 6-6-4.1-4,4.5,4.7,4.8.

HEA 1316, SECTION 1.

Effective: July 1, 2000.

Citations Affected: IC 8-9-11.

**RAILROAD EMPLOYEES TRANSPORTER**

Requires contract carriers that transport railroad employees to limit the hours of service by the contract carriers' drivers.

HR 3419 ENR (Federal)

Effective: January 1, 2000.

Citations Affected: IC 9-24-6-2 (49 USC 31310 and 31311)

**FEDERAL MOTOR CARRIER SAFETY ACT** – This law creates the Federal Motor Carrier Safety Administration. It also creates new federal requirements for highway safety, including changes to commercial driver's license law. See 49 USC 31311.

**MISCELLANEOUS PROVISIONS**

HEA 1051, SECTION 1.

Effective: July 1, 2000.

Citations Affected: IC 9-24-19.

Relocates in a new chapter in the Indiana Code penalty provisions for operating a motor vehicle with suspended or revoked driving privileges, licenses, or permits. Makes changes related to the crime of operating a motor vehicle with suspended or revoked driving privileges, licenses, or permits.

SEA 108, SECTIONS 9 through 11.

Effective: On passage; July 1, 2000.

Citations Affected: IC 24-3-2-10; IC 24-3-4; IC 24-5-0.5-3; noncode.

Among other things, amends the Cigarette Fair Trade and the Deceptive Practices Laws to provide that:

(1) cigarettes imported into the United States that appear to have been made and sold within the United States are presumed to be purchased outside the ordinary channels of trade;

(2) persons may not bring into Indiana certain cigarettes intended for export outside the United States;

(3) persons importing cigarettes into Indiana which are made outside Indiana must file monthly reports with the Department;

(4) the Department may use various processes, such as fines, penalties, and revocation of a cigarette distributor's permit, to enforce the new law;

(5) criminal charges and civil lawsuits may be brought against persons violating the new laws; and,

(6) it is a deceptive consumer practice that a supplier violated IC 24-3-4 concerning cigarettes for import or export.



## SIGNIFICANT COURT CASES

*Bulkmatic Trans. Co. v. Department of State Revenue*  
715 N.E. 2d 26 (Ind. Tax 1999)

Bulkmatic Transport Co. and 59 other petitioners challenged the constitutionality of the “in Indiana” limitation on the proportional use exemption from Indiana’s motor carrier fuel tax and motor carrier fuel surcharge tax. The Indiana General Assembly exempted fuel used in operations while in Indiana other than roadway locomotion from the motor carrier fuel tax. However, because the exemption only applied to non-locomotive operations occurring inside Indiana, the petitioners argued that this discrimination against non-Indiana commerce was in direct violation of the Commerce Clause. The Department, in trying to establish the constitutionality of the “in Indiana” limitation, presented to the court four main arguments. First, the Department asserted, fuel used in non-locomotive operations outside Indiana was not subject to motor carrier fuel tax; as a result, the Department did not have to exempt fuel not apportioned to Indiana in the first place. Second, discrimination cannot be said to have occurred because everybody using Indiana highways, regardless of the extent, was taxed at the same rate. Third, because the motor fuel eligible for exemption had already been apportioned to Indiana, there was no relation between the exemption’s application and interstate commerce. Finally, the Department claimed, even if the “in Indiana” limitation was unconstitutional, the Court had no power to order refunds because there was no statutory authority to do so. The Tax Court found none of these arguments convincing, holding that a scheme proposing equal treatment of taxpayers is not inherently nondiscriminatory; the tax had the effect where motor carriers with non-locomotive operations within Indiana simply paid less tax than those with non-locomotive operations outside Indiana, which itself is discriminatory. Furthermore, the Court added, the suggestion that the Department should do nothing in the face of an unconstitutional statute it previously enforced goes against constitutional due process requirements. Where a post-deprivation remedy is available, the Court stated, one must be entitled to “meaningful, backward-looking relief,” which, in this case, would be the Department putting the petitioners in the same position they would have been (if the discrimination had not occurred) relative to those who received favorable treatment. Therefore, the Court, holding that the “in Indiana” limitation violated the Commerce Clause, granted partial summary judgment on behalf of the petitioners.

*Richard C. Mynsberge d/b/a RCM Rentals v. Department of State Revenue*  
716 N.E.2d 629 (Ind. Tax 1999)

The Department issued a final determination denying Mynsberge’s refund claim for sales tax paid on purchases of electricity that were resold to a lessee. Mynsberge filed an original tax appeal, and both parties moved for summary judgment. Mynsberge leases buildings and equipment to Coppes Nappanee, a manufacturer of kitchen cabinets. In addition to monthly lease payments, Coppes pays a flat monthly fee to Mynsberge for electricity that is used primarily for Coppes’ manufacturing business. Mynsberge argued that his purchases of electricity from Northern Indiana Public Service Company (NIPSCO) do not constitute retail transactions because he did not consume the electricity himself; rather, he resells the electricity to Coppes. In the alternative he contended that if the purchases are retail transactions, they are exempt from gross retail tax under IC 6-2.5-5-8. The Court found that (1) Mynsberge’s purchase of electricity was a retail transaction subject to gross retail tax under IC 6-2.5-4-5, and (2) the purchases were not exempt under IC 6-2.5-5-8. The Court determined Mynsberge’s purchase of electricity was not exempt under IC 6-2.5-5-8 because electricity is not “tangible personal property,” so Mynsberge’s resale of the electricity to Coppes did not bring the original transaction within the statutory exemption.

*Uniden America Corporation v. Indiana Department of State Revenue*  
718 N.E.2d 821 (Ind. Tax 1999)

Uniden appealed the Department’s Letter of Findings denying Uniden’s protest of the Department’s proposed assessment of Indiana gross income tax to Uniden’s Indiana destination sales. Uniden filed a motion for partial summary judgment, and the Department filed a cross-claim for summary judgment. Uniden sells and distributes consumer and commercial electronic products such as cellular telephones, pagers, two-way radios, cordless telephones, and marine radios. Uniden was incorporated in the state of Indiana, but its headquarters and commercial domicile are in Texas. The issue in this case was whether certain interstate sales, Indiana destination sales, of Uniden’s products were subject to gross income tax. Orders for these products were placed by mail or fax to the Texas office; Uniden has no physical sales presence in Indiana. Once the orders were processed, the products were shipped to the customer from Uniden’s warehouse in Texas. The Court found that the gross receipts generated by Uniden’s Indiana destination sales were excluded from gross income under IC 6-

2.1-1-2(c)(6) due to the fact that these sales did not originate from, were not channeled through, and were not otherwise associated with or facilitated by any Indiana situs of Uniden. In determining whether income is derived from an Indiana situs, the Court applied the three-part test established in Indiana-Kentucky Electric Corporation v. Indiana Department of State Revenue, 598 N.E.2d 647, 663 (Ind. Tax 1992).

*Policy Management Systems Corporation v. Indiana Department of State Revenue*  
720 N.E.2d 20 (Ind. Tax 1999)

Policy Management Systems Corporation (PMSC) filed this appeal to challenge the Department's final determination finding that PMSC owed certain gross income taxes for the retrieval and transmittal of motor vehicle reports (MVRs) to its customers. The issue was whether the amounts received by PMSC from its customers as reimbursement for advances PMSC made on behalf of the customers to various state agencies in order to obtain MVRs were subject to the state gross income tax. PMSC is incorporated and maintains its principal offices in South Carolina, but did also maintain a service office in Indianapolis. PMSC provides goods, information, and services to insurance companies. One of its services is the retrieval and transmittal of MVRs. The Court looked to the Department's regulation 45 IAC 1-1-54 that recognizes the non-taxability of agents' receipts. 45 IAC 1-1-54 sets forth two requirements that must be met in order to qualify for the exemption from the gross income tax. The Court found that PMSC acted as an agent for its customers insofar as processing the MVR requests are concerned by considering the actual terms of the processing agreements and the conduct of PMSC and its customers. The Court also found that the reimbursements were truly advances by PMSC to third parties on behalf of its customers because PMSC lacked a beneficial interest in the reimbursements. Having found that PMSC met both requirements, the Court concluded that the receipts from customers for the retrieval and transmittal of the MVRs were not subject to the gross income tax.

*Muncie Novelty Co. v. Department of State Revenue*  
720 N.E.2d 779 (Ind. Tax 1999)

The Department determined that Muncie Novelty (MN) owed Gaming Card Excise Tax (GCET) and in addition levied a civil penalty against it for failure to keep adequate records. MN filed an appeal in response to the Department's final determination. Two issues were presented to the Court for discussion: (1) whether the Department properly assessed GCET when MN did not iden-

tify organizations as qualified or non-qualified; and, (2) whether the Department properly assessed MN with a civil penalty for failure to keep adequate records of its sales of gaming items. MN is headquartered in Muncie, Indiana, and manufactures and distributes pull-tabs, punch boards and tip boards, which are shipped around the country. Qualified organizations in Indiana (as defined by 45 IAC 4-32-6-20) can obtain licenses for charity gaming events under the Charity Gaming Act. Qualified organizations are required to purchase their gambling devices from a licensed supplier like MN and are subject to the 10% GCET (IC 4-32-15-1). Non-qualified organizations that purchase gambling devices from MN are charged the 5% sales tax. Some of MN's customers preferred to pay cash and remain anonymous. MN did not retain the required information on these cash-paying customers as directed by 45 IAC 18-4-2(a)(1)(B). Because of this lack of information on cash-paying customers and the ease with which MN could have identified these customers as qualified or non-qualified, the Court found that it was reasonable for the Department to assume all unidentified customers were qualified and owed the 10% GCET. The Court also found that the \$5,000 civil penalty levied against MN was reasonable in light of the fact that MN had the ability to comply with the record-keeping requirements of the regulations, but chose not to do so.

*Keith and Mary Hall v. Department of State Revenue*  
720 N.E. 2d 1287 (Ind. Tax 1999)

On remand from the Supreme Court, taxpayers moved to dismiss the \$11,382,640.00 controlled substance excise tax (CSET) assessment made by Department for 142,283 grams of marijuana found in their home by law enforcement officers. The Halls were both arrested and an assessment for the unpaid CSET was made; Keith Hall was charged and later convicted of Class D Felony marijuana possession, whereas all charges against Mary Hall were dropped. The Halls argued that the CSET violated the Double Jeopardy clause; the Supreme Court disagreed, stating that because the assessment came before the criminal charges, it did not fall under the purview of the constitutional provision against double jeopardy in criminal cases. After the case was remanded to the Tax Court, the Tax Court found, due to Hall's own admission and discussion at trial, there was no question of Keith Hall's possession of the marijuana on which the CSET was based. However, the Court stated, the evidence offered at trial was insufficient to establish Mary Hall's constructive or actual possession of the marijuana seized from the Hall's home. The Tax Court affirmed the Department's decision against Keith Hall but reversed its decision against Mary Hall, holding that though the CSET was correctly assessed against Keith Hall, who

admitted possessing the marijuana, Mary Hall lacked the intent and ability to exercise dominion and control over the marijuana, and thus was not in actual or constructive possession, as required before the Department may assess CSET.

Gary G. Hurst v. Department of State Revenue  
721 N.E. 2d 370 (Ind. Tax 1999)

Defendant, Gary Hurst, sought to have Tax Court vacate the \$2,470,952.00 controlled substance excise tax (CSET) levied against him by the Department, arguing that facts of the case did not place him within the purview of the CSET statute. The CSET was based upon a shipment of marijuana in a rental truck, which was allegedly en route to Hurst's residence prior to being seized by Indiana State Police. Hurst argued that because law enforcement officials intercepted the marijuana before any attempt was made to deliver it to him, he never actually possessed the controlled substance upon which the CSET was levied. The Department argued that since constructive possession is the only requirement to impute liability under the CSET, Hurst's activities prior to the seizure and interview after his arrest established the requisite level of possession to warrant the CSET. But because the Indiana State Police never elicited from Hurst that he, in fact, knew the truck contained marijuana, or that he had the intent or ability to exercise dominion and control over the truck's contents once it arrived at his residence, the Tax Court disagreed with the Department's position. Holding that Hurst's liability under the CSET was not sufficiently established due to the quick action conduct of the Indiana State Police in arresting him before he actually possessed the marijuana shipment, the Tax Court reversed the Department's previous determination.

Rockland R. Snyder v. Indiana Department of State Revenue  
723 N.E. 2d 487 (Ind. Tax 2000)

Snyder appealed the final determination of the Department denying his protest challenging the constitutionality of Indiana's adjusted gross income tax, arguing that, for purposes of calculating Indiana's adjusted gross income tax, wages are not income. An Indiana resident, Snyder filed individual income tax returns for the years protested, noting in each return that though he received wages for his services those services did not constitute income. After the Department's denial of his protest, Snyder argued before the Tax Court that because Indiana has adopted the definition of gross income used in the Internal Revenue Code, which includes "wages" as a source of income but not "income" specifically, the tax

is unconstitutional. The Tax Court found Snyder's position and misplaced reliance on factually distinguishable cases to be without merit, stating "the constitutional legitimacy of the general assembly's decision to tax income is beyond dispute. The right to tax is a crucial attribute of sovereignty." The Court further held that, because even the cases Snyder relied on for his argument recognize Congress' constitutional right to tax income without reference to the income's source, Snyder's contention that sources of income may not be taxed was fatally flawed. Finding that, as a matter of law, Snyder's wages were subject to the gross income tax, the Court denied Snyder's motion for summary judgment. Because Snyder failed to demonstrate entitlement to any relief, the Court, in addition to granting the Department's cross motion for summary judgment, affirmed the Department's final determination denying Snyder's protest.

Owner-Operator Independent Drivers Association v. State of Indiana  
725 N.E. 2d 891 (Ind. App. 2000)

In an appeal from the Marion County Circuit Court, Appellants (Owner-Operator Independent Drivers Association, Raymond Kasicki, and Marino Motor Services, Inc.) challenged both the trial court's dismissal of its complaint and the constitutionality of the Indiana Motor Carrier Fuel Tax imposed on commercial vehicles. Appellants (out-of-state commercial motor carriers taxed for fuel used based upon mileage accrued on Indiana highways) contended that fuel consumed on the Indiana Toll Road should be tax exempt, claiming that the International Fuel Tax Agreement (IFTA) precluded them from having to remit the tax to the Department. The IFTA was intended to enable carriers operating in multiple states to file a consolidated tax return with a "base state," which would then distribute the tax remitted to the other states in which the carriers operate. The Department argued that because (a) Appellants failed to exhaust their administrative remedies prior to filing its complaint with the trial court, and (b) only the Tax Court would have jurisdiction over such a case, their complaint must be dismissed for lack of subject matter jurisdiction. Appellants argued in appeal of this decision that: (a) administrative remedies were unavailable to them because they did not file a tax return in Indiana; (b) the administrative requirements of the fuel tax law were waived when Indiana joined the IFTA; (c) the administrative requirements unfairly deter class action suits for tax refunds. The Court of Appeals, however, disagreed with all three of the Appellants' positions, affirming the judgment of the trial court that no court has subject matter jurisdiction over the case until Appellants exhaust their administrative remedies.

Wabash, Inc. v. Department of State Revenue  
729 N.E.2d 620 (Ind. Tax 2000)

Wabash filed this appeal from a final determination by the Department finding that Wabash should not have included its parent company, Kearney-National, Inc. (KN) on its consolidated tax return. In addition, the Department raised the issue of whether the apportionment method used by Wabash in calculating its taxes was correct. Wabash is a manufacturing corporation located in Wabash, Indiana. It is a wholly owned subsidiary under the corporate umbrella of KN. KN had acquired a competitor, Coto Corporation (Coto), located in Rhode Island. In order to facilitate this acquisition, KN appointed Michael Carper, the general manager of Wabash, to head the transition. Wabash's operations were to be moved from Indiana to Rhode Island. While working on this project, Carper became a full-time employee of KN. The Court found that KN did sufficient business in Indiana as defined by 45 IAC 3.1-1-38(7) and had Indiana-sourced income under IC 6-3-2-2. Since KN had sufficient Indiana-sourced income, it could be included in Wabash's return under IC 6-3-4-14. The Court also found that the standard three-factor apportionment formula employed by Wabash in calculating its taxes was correct. The Court looked to the United States Supreme Court's statement that the standard formula has become a benchmark against which other apportionment formulas are judged. The Court also looked to the Department's own regulations, 45 IAC 3.1-37,-45, that recognize the standard formula as the most accepted and recognized method of computing a company's taxes.

Crossno v. State  
726 N.E.2d 375 (Ind. App. 2000)

This decision handed down by the Court of Appeals affirms a partial grant of summary judgment for the State. In so doing, the Court holds that the Department is immune from liability for claims arising out of the issuance of an oversize/overweight permit, specifically negligent training and supervision, as well as failure to maintain accurate reference maps and failure to disclaim responsibility for reference map accuracy.

# AREAS OF RECURRING TAXPAYER NONCOMPLIANCE

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## ■ Returns Processing Center

*Each year the Returns Processing Center of the Indiana Department of Revenue is responsible for processing nearly 6 million tax returns and the deposit of over 6 billion dollars. In our efforts to serve our customers who represent a vast cross section of interests we find a number of problems that continue to occur from one year to another. Our goal is to see that all returns are received, the remittances and the returns are posted to the accounts both timely and accurately, and for those taxpayers expecting a refund that those monies are paid timely and accurately. As with all businesses we are looking at various means of new technology to assist us in achieving our goals. But even with the use of new technology we still find the following areas of recurring taxpayer noncompliance.*

### Use of Non-Departmental Payment Coupons

The Department provides preprinted coupon vouchers to taxpayers who are registered with the Department and have a previous history of filing coupons. Relevant tax types include: sales tax, withholding tax, estimated tax for both individuals and corporations, and various other taxes and fees. Each month the Department receives several thousand payments without coupons, maybe with handwritten information on pieces of paper, coupons from prior filing periods that have been changed to fit the periods for which the taxpayers are trying to file, or just payments with no explanation. The Department receives numerous coupons generated by tax preparation software that cannot be processed by our automated equipment, which cause them to be manually processed.

### Failure to Complete All the Required Lines/Information

The Department receives numerous returns that are not completed by the taxpayer, which delays their processing and necessitates Department personnel having to complete the form based on the information provided, contacting the taxpayer, or returning the form to the taxpayer for additional information. These problems slow down the Department's ability to process returns quickly and efficiently.

## Filing the Wrong Return

The Department receives numerous returns each year which are on the correct forms but not for the current year, or may be for the correct year but are on the wrong forms. An example would be taxpayers' submitting IT-40EZ forms, when they do not qualify for that form because of the type of income or deductions they may have. In these cases, Department employees must determine the correct form to be used and either attempt to transfer the information to the correct form, or return the form submitted along with a copy of the correct form to the taxpayer for resubmitting.

## Failure to Attach W-2 Forms

The Department receives a vast number of Individual Income Tax returns without W-2 forms to verify the withholding taxes taken as credits on the returns. Failure to submit W-2 forms causes the returns to be rejected and returned to taxpayers with requests for correct documentation.

## Failure To Attach W-2 Forms with the WH-3

The W-3 is a reconciliation of the W-2 forms; and both the WH-3 and all W-2 forms must be submitted together annually. The Department often receives WH-3 forms without W-2 forms attached. It also often finds cases of taxpayers changing business names during the year but continuing to file their taxes under their previous Identification Number, and then using the incorrect forms at the end of the year to submit their withholding information for the year.

## Failure to Attach the Necessary Schedules

The Department finds that often taxpayers take credits on their tax returns, but fail to include documentation or necessary schedules to substantiate the deduction or credits being taken (e.g. College Credit, Form CC-40).

## Failure to Comply with Enterprise Zone Deduction

If a taxpayer lives in an Enterprise Zone and works for a qualified employer in that zone, the taxpayer may be qualified to take the deduction. The deduction is one-

half (1/2) of the earned income shown on form IT-40QEC, or \$7,500, whichever is less. Often the deduction is calculated incorrectly, or Form IT-40QEC, which should be provided and completed by the employer, is not attached to the taxpayer's Form IT-40.

### **Taxpayer Filing Wrong Form**

Taxpayers who are residents from Reciprocal States often file on Indiana Form IT-40 and take a deduction of the other state's income, rather than filing the appropriate Indiana Form IT-40RNR (Reciprocal Nonresident).

### **Penalty for Underpayment of Estimated Tax**

Taxpayers often owe penalties for underpayment of estimated taxes if they didn't have taxes withheld from their income and/or didn't pay sufficient estimated taxes throughout the year. Generally speaking, if a taxpayer owes \$400.00 or more in state and county taxes for the year that are not covered by withholding taxes, the taxpayer needs to make estimated tax payments.

### **Failure to Calculate County Tax**

Often taxpayers fail to compute their county taxes. If, on January 1 of the tax year, taxpayers lived and/or worked in an Indiana county that has a tax, they must figure their county tax. Failure to calculate county tax due may delay processing of their returns.

### **Improper Completion of County Boxes**

Some IT-40's are received with "00" in the county boxes when it is not applicable. An example is "00" entered in the spouse boxes for a single taxpayer. Our computer system recognizes "00" as meaning a non-reciprocal out of state county.

### **Systems Services Delinquency Project**

The Department issues delinquency letters to those Sales Tax and Withholding Tax accounts that fail to file returns for all periods. The taxpayer receives a letter indicating the tax type, delinquent month(s), quarter(s) or year along with the appropriate preprinted returns to be completed for those periods. This project is conducted to ensure compliance with the Department of Revenue's filing requirements and encourage proper notification of any changes that we may need to maintain accurate and current records.

### **Corporate Tax Failure To File Timely**

Corporate tax filings that show no tax liability, but are filed after the due date, are subject to a penalty of \$10

per day that the return is past due, up to a maximum of \$250. In years past, these billings were manually generated, but with the Departments Returns Processing System (RPS), the late returns are programmatically identified and the taxpayers subsequently billed.

### **Fuel Tax Common Reporting Errors**

A review of previously filed special fuel and gasoline monthly tax returns has revealed the following common reporting errors. This list does not contain all reporting errors, but is representative of those most commonly found. This would include the following forms and schedules: FT-1, SF701, MF360, Schedules 5 through 10, SF900, SF401, Schedules 1A, 2A, 3A, FT501, Schedule 501A, 501B, 501C, MF600, SF801 and SFIVP.

- Return submitted with no license/account number indicated
- Return submitted with no signature of person completing/filing return
- No payment submitted with a return that indicates an amount due
- Payment submitted but no return filed
- Missing schedules
- Incomplete information provided on schedules
- Transactions reported in the wrong month. (All special fuel transactions must be reported in the month in which they occur)
- Duplication of deductions on more than one schedule
- More than one fuel type reported on same schedule
- Export schedules not filed in duplicate as required
- Dyed fuel transactions reported on schedules designated as clear fuel
- Deliveries of special fuel with an Indiana destination misreported on export schedules
- Truck deliveries misreported on Schedule 6

- Computer generated forms/schedules that do not conform to Department requirements
- Dyed fuel user not filing schedule correctly

### Environmental Tax Common Reporting Errors

A review of previously filed environmental returns has revealed the following common reporting errors. This would include the following forms and schedules: UST-1, HC-500, HW-020 and SW-100.

- Form not signed
- No Federal I.D. number/social security number
- No check with form
- No form with check
- Check not made out to Indiana Department of Revenue
- Money sent is different from amount filled
- Missing schedules
- Duplicate filing

## ■ Compliance Division

### AERONAUTICS SECTION

The Aeronautics Section mailed 4,571 aircraft registration renewals for the Calendar Year 1999, 167 aircraft owners were delinquent. This translates to a 96% renewal compliance rate. The following amounts were collected and processed by the Aeronautics Section for the Fiscal Year 1999 – 2000.

Aircraft Sales/Use Tax	\$3,714,109
Aircraft Excise Tax	\$ 430,718
Registration Fees	\$ 79,612
Total	\$4,224,439

Indiana Code 6-6-6.5-2 states that any resident of this state who owns an aircraft must register the aircraft within thirty-one (31) days from the purchase date. Any non-resident who bases an aircraft in this state for more than

sixty (60) days shall register the aircraft with the Department no later than sixty (60) days after establishing a base in Indiana. During Fiscal Year 1999-2000, section actively pursued non-compliant aircraft owners that failed to respond to the Department's request for registration. Three hundred, sixty-eight (368) aircraft owners were assessed \$1,594,777. This amount includes delinquent prior year and current excise tax, sales/use tax, plus penalty and interest.

According to Indiana Code (6-6-6.5), airport owners who fail to report to the Department all based aircraft at their facility are subject to a late penalty of \$10.00 per day. Penalties totaling \$1,140 were collected from delinquent airports in Fiscal Year 2000. These reports are used to verify that all aircraft owners based in Indiana are in compliance with Indiana registration laws.

### Corporate Reinstatement Certificate of Clearance & Letters of Good Standing

Often profit and not-for-profit corporations allow their corporate status to be administratively dissolved by the Secretary of State's Office for noncompliance. The taxpayer is required to obtain a reinstatement certificate of clearance from the Department verifying the corporation is in good standing before their corporate status will be reinstated with the Secretary of State's Office. The Department has issued 911 reinstatement clearances, and denied 89 requests.

Corporations in the process of obtaining financial loans or grants will request the Department to issue a letter of good standing for their corporation. The Department has issued 106 letters of good standing and denied 31 request.

### BANKRUPTCY/RESPONSIBLE OFFICER SECTION

The Bankruptcy Section receives notification from federal district courts of bankruptcies related to the State of Indiana. The Department of Revenue is required to file proofs of claims with the courts of any outstanding Indiana tax liabilities. During the Fiscal Year 2000, this section filed 2,218 claims with the U.S. Bankruptcy Courts, totaling \$38,323,610 representing unpaid tax delinquencies and projected tax liabilities for non-filed returns.

A responsible officer is an individual who is an employee, officer, or member of a corporate or partnership and has the duty to remit trust taxes to the Department of Revenue. The responsible officer is personally liable under Indiana Code 6-2.5-9-3 and Indiana Code 6-3-4-8(g) for the payment of these taxes. Trust fund taxes are comprised predominantly of sales/use and withholding taxes.

During Fiscal Year 2000, responsible officers were assessed \$3,864,962 in delinquent trust taxes.

## **CHARITY GAMING/NOT-FOR-PROFIT**

This section is responsible for determining organizations' not-for-profit status and for licensing qualified not-for-profit organizations for bingo, festivals, raffles door prizes, and charity game nights. The licensing of manufacturers and distributors to sell tip boards, punch boards, and pull-tabs is performed by this section.

A total of \$4,061,892 in fees was collected from the following licenses issued:

<b>Type of License</b>	<b>Number of Licenses Issued</b>
Annual Bingo	895
Charity Game Night	255
Door Prize	8
Festival	294
Raffle	535
Special Bingo	133
Total License Issued	2,120

The following license fees were collected:

Gaming License Fees	\$ 3,907,892.00
Manufacturers License	\$ 36,000.00
Distributors License	\$ 118,000.00
Total Fees Collected	\$ 4,061,892.00

During the Fiscal Year 2000, the Charity Gaming Section conducted four training seminars, which were held in Indianapolis, Plymouth, Madison and Jasper. Approximately 252 representatives from not-for-profit organizations attended these seminars which covered the following topics:

- Not-For-Profit Tax Registration
- How to Qualify to Conduct Charity Gaming in Indiana
- Rules and Regulations
- Bookkeeping and its Importance
- Charity Gaming Excise Tax – rules and procedures
- Common errors that may delay processing
- Penalties and Fines imposed for gaming violations

## **Charity Gaming**

The Department will be sponsoring six training seminars around the state during the next fiscal year. These seminars will be held in Indianapolis, Plymouth, Huntington, Marshall, Mitchell, and Madison. The seminars will help explain the laws and regulations for not-for-profit organizations which either currently conduct, or would like to conduct, charity gaming activities. The topics will cover the qualification process, forms, financial reports, as well as changes to forms and procedures.

## **INDIVIDUAL/WITHHOLDING SECTION**

The Individual Income Tax Section's mission is to identify and pursue non-filers; as well as to verify the accuracy of filed returns, utilizing information from the Internal Revenue Service, various Indiana State agencies, other state taxing agencies, and anonymous informants. Our standard compliance projects and findings for Fiscal Year 2000 are as follows:

### **Federal Audits**

The Internal Revenue Service provides agreed federal tax audit reports to the Department. If taxpayers fail to amend their Indiana Individual Income Tax return to report the Indiana adjustments resulting from the federal modifications, a tax assessment is generated. This project resulted in 2,221 taxpayers being assessed a total of \$1,787,427.

### **CP2000**

The Department receives data from the Internal Revenue Service regarding taxpayers who failed to report all taxable income. This could be income derived from wages, interest, dividends, or non-employee compensation. These types of income are reported on W-2's or Form 1099 information statements. An assessment is generated if the income was not reported on the original return, or an amended return. The project resulted in 12,466 taxpayer assessments totaling \$1,788,678.

### **Individual Desk Audits**

Individual desk examinations are performed, based on anonymous sources or submissions from other divisions within the Department. The examination may consist of verifying income reported, credits/deductions taken, or the amount of refund requested. The Section assessed 116 taxpayers \$78,544 through these audit efforts.



## **Withholding Discrepancies**

A comparison is made between taxpayers' annual WH-3 Forms with the state and county withholding payments (WH-1) made during the year. If underpayments exist, taxpayers are assessed the differences. The project resulted in 1,699 taxpayers being assessed \$6,986,000.

## **STRATEGIC SECTION**

The Strategic Section of Compliance was created to research, develop, and implement projects designed to increase taxpayer education and voluntary compliance. As needed, we also assist other sections of the Department to eliminate processing backlogs. This section may be assigned to answer telephones, work correspondence, examine returns and filing information, or work on tasks that assist in meeting Departmental goals.

As the Department added Corporate Income Tax data to our on-line computer system, this section helped eliminate backlogs. This section reviewed 9,373 corporate income tax returns and collected \$10,660 while pursuing this endeavor.

Educational efforts continued to inform professional and service-oriented businesses that they might have a use tax liability. Use tax is due when a purchase is made and there was no sales tax imposed. This would include purchases made from suppliers or vendors outside Indiana. Examples of such purchases subject to use tax would include, but are not limited to professional books or publications, computer hardware or software, office equipment, and magazine subscriptions. Letters providing information on use tax requirements were sent to 3,752 taxpayers, which resulted in the collection of \$93,965.

This section contacted 607 taxpayers who were delinquent in multiple tax areas. These taxpayers were contacted by telephone or mail and informed of missing tax returns before any assessments were issued. This project resulted in taxpayers filing returns for the appropriate tax periods and remitting taxes totalling \$239,258.

Much research was conducted this year on referrals received from other divisions of the Department, other state agencies, as well as revenue agencies from other states. As a result of taxpayer correspondence and assessment notifications, the Section collected \$1,798,266.

Departmental records were examined to identify non-filers of individual income tax, sales/use tax, withholding tax and corporate income tax. Taxpayers were sent letters to educate them on filing requirements, as well as penalty and interest assessed if they fail to timely file and remit tax due. Total collection for the fiscal year was \$141,640.

## **UTILITY/REFUND SECTION**

Sales and use tax imposed when property is acquired from a retail merchant in a retail transaction. Since Indiana Code 6-2.5-4-5 excludes utility sales for listed uses from being retail transactions, that cannot be subject to sales or use tax. This exclusion applies when the sales of the utility are (1) by public utilities power subsidiaries, or person engaged as public utility (2) used in manufacturing, production, etc. and (3) either separately metered or predominately used in an excluded manner.

To receive this exclusion, the taxpayer must complete Form ST-200, Utility Sales Tax Exemption Application. The application is utilized by the Department to determine if a taxpayer qualifies for a full or partial exemption. This section reviewed and processed 5,381 Utility Sales Tax Exemption Applications.

Approximately 3,059 refund claims (Form GA-110L) were processed and approved totaling \$40,660,143. Original amounts claimed were reduced by \$700,631. As a result of taxpayer failure to document the claims, failure to meet exemption requirements and/or the Statute of Limitations had expired. In addition, \$35,762,424 (of the amount claimed) was assigned to other divisions for review.

## **Voluntary Compliance Agreements**

Taxpayers who have failed to collect/remit taxes occasionally contact the department and request to enter into a Voluntary Compliance Agreement. These taxpayers may have been unaware of State filing requirements or may have failed to file tax returns. Collections for Fiscal Year 2000 totaled \$293,423.

## **Collections**

Consumer use collections, payments received from out-of-state companies (who either collected Indiana Sales Tax or owed Indiana Use Tax) and billings generated from information received from a variety of sources, i.e. other state agencies, divisions, states, anonymous tips, etc., resulted in the collection of \$397,267.

## **Fuel and Environmental Refund**

The Trust Refund Section was expanded to include some employees of the former Fuel and Environmental Division. These employees are responsible for reviewing Gasoline (Form GR-4136), Special Tax (Form SFR-1032) and Proportional Use (Form MF-6431) refunds. The Prepaid Sales Tax staff has joined this section, as well; their primary responsibilities include the review and maintenance of the Prepaid Sales Tax accounts.

## INDIANA TAX DESCRIPTIONS AND REVENUES

All amounts are in thousands. Percent (%) change reflects increase from FY99 to FY00, unless otherwise indicated.

### Aircraft License Excise Tax

Excise tax, due at the time of registration, is determined by weight, age and type of aircraft. All excise tax is distributed to the county where the aircraft is usually located when not in use.

FY90	—	FY94	\$413.2	FY98	\$381.8
FY91	—	FY95	\$395.6	FY99	\$392.9
FY92	—	FY96	\$404.4	<b>FY00</b>	<b>\$430.0</b>
FY93	—	FY97	\$377.6	CHANGE	9.4%

### Alcoholic Beverage Tax

Per gallon rates are based on the wholesale purchase of the following: beer, \$.115; Liquor-wine (21% alcohol or more), \$2.68; wine (less than 21% alcohol), \$0.47; mixed beverages (14% or less), \$0.47

FY90	\$35,247.4	FY94	\$33,974.9	FY98	\$33,087.8
FY91	\$33,593.8	FY95	\$33,590.2	FY99	\$35,148.9
FY92	\$33,831.5	FY96	\$33,847.8	<b>FY00</b>	<b>\$36,240.5</b>
FY93	\$33,224.5	FY97	\$33,942.4	CHANGE	3.1%

### Auto Rental Excise Tax

Based on the gross retail income from the rental of a vehicle weighing less than 11,000 pounds, for less than a 30-day period at a rate of 4%.

FY90	\$3,614.7	FY94	\$5,403.0	FY98	\$8,047.7
FY91	\$4,528.0	FY95	\$6,282.9	FY99	\$8,914.0
FY92	\$4,464.8	FY96	\$6,981.3	<b>FY00</b>	<b>\$8,101.9</b>
FY93	\$5,008.4	FY97	\$7,836.8	CHANGE	-9.1%

### Charity Gaming Excise Tax

Tax based on the sale of pull tabs, punchboards and tip boards to qualified organizations licensed for charity gaming at a rate of 10% of the wholesale price. Remitted by the licensed distributor or manufacturer (not the organization).

FY90	—	FY94	\$ 780.5	FY98	\$1,222.7
FY91	—	FY95	\$ 967.7	FY99	\$1,313.1
FY92	—	FY96	\$1,008.1	<b>FY00</b>	<b>\$1,211.1</b>
FY93	\$ 581.0	FY97	\$1,194.3	CHANGE	-7.8%

### Cigarette/Other Tobacco Tax

Levied against cartons or packs of cigarettes and cigarette papers, wrappers and tubes at the following rates: pack of 20 cigarettes, \$0.155; pack of 25 cigarettes, \$0.19375; other tobacco products, 15% of wholesale price.

FY90	\$112,739.4	FY94	\$113,380.3	FY98	\$127,969.1
FY91	\$110,113.7	FY95	\$123,025.6	FY99	\$127,634.1
FY92	\$111,363.1	FY96	\$123,720.2	<b>FY00</b>	<b>\$125,151.5</b>
FY93	\$110,278.4	FY97	\$128,420.3	CHANGE	-1.9%

**Controlled Substance Excise Tax**

Imposes a tax on illegally delivered, manufactured or possessed controlled substances. (Prescription pharmaceuticals are exempt.) Tax based on the weight and schedule of substance. Rates vary from \$3.50 to \$40.00 per gram. Once paid, a taxpayer who can remain anonymous is given a receipt for the tax which is valid for a specific time period. The payment of this tax does not legalize the controlled substance or the activity associated with it.

FY90	—	FY94	\$260.4	FY98	\$101.2
FY91	—	FY95	\$291.4	FY99	\$55.5
FY92	—	FY96	\$110.4	<b>FY00</b>	<b>\$60.2</b>
FY93	326.0	FY97	\$192.9	CHANGE	8.5%

**Corporate Adjusted Gross Income Tax**

Based on all federal taxable business income with specific modifications at a rate of 3.4%.

FY90	\$ 90,957.8	FY94	\$ 62,056.0	FY98	\$106,562.9
FY91	\$ 44,681.7	FY95	\$ 81,360.5	FY99	\$93,225.4
FY92	\$ 73,209.2	FY96	\$125,470.0	<b>FY00</b>	<b>\$155,499.5</b>
FY93	\$111,895.8	FY97	\$149,772.8	CHANGE	66.8%

**Corporate Gross Income Tax**

Based on all corporation business transactions within the State, whether resident or nonresident corporations. Rate varies according to business type.

FY90	\$390,238.8	FY94	\$606,139.0	FY98	\$547,865.4
FY91	\$336,837.2	FY95	\$532,210.9	FY99	\$755,772.5
FY92	\$344,743.2	FY96	\$477,982.9	<b>FY00</b>	<b>\$436,407.3</b>
FY93	\$162,933.0	FY97	\$436,129.2	CHANGE	-42.3%

**Corporate Supplemental Net Income Tax**

Based on the adjusted gross income, less the greater of the amounts paid in Adjusted Gross Income Tax, Gross Income Tax or Premium Tax at a rate of 4.5%.

FY90	\$272,147.7	FY94	\$198,645.5	FY98	\$296,060.3
FY91	\$260,714.7	FY95	\$283,274.8	FY99	\$157,574.5
FY92	\$231,779.4	FY96	\$308,272.8	<b>FY00</b>	<b>\$358,417.1</b>
FY93	\$394,575.0	FY97	\$338,146.3	CHANGE	127.5%

**County Adjusted Gross Income Tax**

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt either the County Adjusted Gross Income Tax or the County Option Income Tax, but not both.)

FY90	\$180,589.5	FY94	\$236,400.0	FY98	\$254,264.0
FY91	\$178,896.0	FY95	\$228,824.4	FY99	\$265,759.0
FY92	\$184,570.8	FY96	\$236,047.2	<b>FY00</b>	<b>\$284,537.8</b>
FY93	\$194,984.4	FY97	\$243,561.6	CHANGE	7.1%

### County Economic Development Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary.

FY90	\$13,260.0	FY94	\$58,321.0	FY98	\$ 97,879.2
FY91	\$21,960.0	FY95	\$64,222.8	FY99	\$112,551.9
FY92	\$31,492.8	FY96	\$74,388.0	<b>FY00</b>	<b>\$121,817.0</b>
FY93	\$38,241.6	FY97	\$80,456.4	CHANGE	8.2%

### County Innkeepers Tax

Tax determined locally at a rate not to exceed 5% of the gross income derived from lodging income. Tax may be collected either by the Department or locally through the county treasurer's office.

FY90	\$14,309.6	FY94	\$12,671.5	FY98	\$18,962.8
FY91	\$13,288.6	FY95	\$14,248.6	FY99	\$20,251.1
FY92	\$12,908.8	FY96	\$14,973.1	<b>FY00</b>	<b>\$21,077.4</b>
FY93	\$13,121.4	FY97	\$15,600.7	CHANGE	4.1%

### County Option Income Tax

Tax determined locally for county residents or nonresidents whose principal place of employment is within a county which imposes the tax. Rates vary. (A county may adopt the County Option Income Tax or the County Adjusted Gross Income Tax, but not both.)

FY90	\$162,828.0	FY94	\$245,808.1	FY98	\$344,646.5
FY91	\$190,116.0	FY95	\$275,462.7	FY99	\$368,343.2
FY92	\$203,113.2	FY96	\$285,327.6	<b>FY00</b>	<b>\$394,089.4</b>
FY93	\$223,934.4	FY97	\$314,942.0	CHANGE	7.0%

### Estate Tax

Based on the difference between the State Death Tax Credit allowed at the federal level and the amount paid in state Inheritance Tax.

FY90	\$ 4,972.6	FY94	\$ 9,709.1	FY98	\$11,241.3
FY91	\$13,168.5	FY95	\$ 7,168.7	FY99	\$24,700.4
FY92	\$ 2,500.0	FY96	\$ 4,383.9	<b>FY00</b>	<b>\$21,022.0</b>
FY93	\$11,054.0	FY97	\$ 8,886.0	CHANGE	-14.9%

### Financial Institutions Tax

Based on the federal adjusted gross income at a rate of 8.5% for businesses which are engaged in extending credit, leasing (when it is the economic equivalent of extending credit) or credit card operations.

FY90	\$ 16,292.5	FY94	\$108,077.2	FY98	\$95,967.3
FY91	\$ 62,731.4	FY95	\$100,742.9	FY99	\$81,883.8
FY92	\$ 74,372.1	FY96	\$122,142.0	<b>FY00</b>	<b>\$79,365.8</b>
FY93	\$100,425.6	FY97	\$100,682.9	CHANGE	-3.1%

### Food and Beverage Tax

Tax determined locally for purchases of food and beverages at a rate of 1% of retail sales price.

FY90	\$15,644.0	FY94	\$20,670.1	FY98	\$23,683.5
FY91	\$16,362.7	FY95	\$20,452.6	FY99	\$23,574.1
FY92	\$16,447.5	FY96	\$21,341.0	<b>FY00</b>	<b>\$26,021.0</b>
FY93	\$18,947.8	FY97	\$22,239.9	CHANGE	10.4%

### Gasoline Tax

Per gallon rate of \$0.15 for all invoiced gallons of gasoline collected by the licensed distributor and added to the selling price.

FY90	\$395,730.7	FY94	\$420,237.5	FY98	\$455,569.6
FY91	\$397,283.9	FY95	\$430,807.7	FY99	\$466,427.9
FY92	\$399,849.1	FY96	\$437,096.3	<b>FY00</b>	<b>\$464,152.8</b>
FY93	\$406,508.5	FY97	\$443,869.2	CHANGE	-.5%

### Hazardous Waste Disposal Tax

Based on the amount of hazardous waste (as defined by statute) placed in a disposal facility or by means of underground injection at a rate of \$11.50 per ton.

FY90	\$5,836.0	FY94	\$2,733.3	FY98	\$2,603.0
FY91	\$2,335.1	FY95	\$2,634.8	FY99	\$1,744.7
FY92	\$2,638.2	FY96	\$2,575.5	<b>FY00</b>	<b>\$1,770.1</b>
FY93	\$2,512.0	FY97	\$2,390.1	CHANGE	1.5%

### Individual Adjusted Gross Income Tax

Based on the federal adjusted gross income with numerous "add-backs" for individual residents, partners, stockholders in Subchapter S Corporations, trusts, estates and nonresidents with Indiana income sources at a rate of 3.4%.

FY90	\$2,089,540.4	FY94	\$2,541,895.1	FY98	\$3,433,445.9
FY91	\$2,183,972.1	FY95	\$2,767,743.1	FY99	\$3,699,316.6
FY92	\$2,246,760.5	FY96	\$2,966,265.7	<b>FY00</b>	<b>\$3,753,339.5</b>
FY93	\$2,412,471.9	FY97	\$3,197,117.8	CHANGE	1.5%

### Inheritance Tax

Based on the taxpayer class (transferee's relationship to deceased); property's taxable value; residency status; and situs of real and tangible property and intangible property.

FY90	\$62,313.0	FY94	\$88,604.6	FY98	\$113,141.7
FY91	\$68,364.1	FY95	\$98,886.3	FY99	\$124,011.8
FY92	\$84,469.5	FY96	\$93,767.2	<b>FY00</b>	<b>\$119,198.1</b>
FY93	\$91,146.7	FY97	\$106,470.1	CHANGE	-3.9%

**Marion County Admissions Tax**

Specific to the RCA Dome, Victory Field and Conseco Fieldhouse in Indianapolis for any sporting event at a rate of 5% of the admission.

FY90	\$699.9	FY94	\$607.1	FY98	\$ 931.4
FY91	\$672.4	FY95	\$713.0	FY99	\$1,209.9
FY92	\$643.2	FY96	\$860.3	<b>FY00</b>	<b>\$4,567.5</b>
FY93	\$635.0	FY97	\$966.3	CHANGE	277.5%

**Marion County Supplemental Auto Rental Excise Tax**

Based on the gross retail income from the rental of passenger motor vehicles and trucks in Marion County for less than a 30-day period at a rate of 2%. Revenue from the tax is paid to the Capital Improvement Board of Managers effective 1997.

FY90	—	FY94	—	FY98	\$1,330.1
FY91	—	FY95	—	FY99	\$1,667.8
FY92	—	FY96	—	<b>FY00</b>	<b>\$1,658.7</b>
FY93	—	FY97	—	CHANGE	-.5%

**Motor Carrier Fuel Tax**

Per gallon rate of \$0.16 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY90	\$16,083.4	FY94	\$13,721.2	FY98	\$9,869.4
FY91	\$17,009.2	FY95	\$11,597.2	FY99	\$7,039.4
FY92	\$15,031.0	FY96	\$9,605.5	<b>FY00</b>	<b>\$5,745.2</b>
FY93	\$15,138.0	FY97	\$7,431.2	CHANGE	-18.4%

**Motor Carrier Surcharge Tax**

Per gallon rate of \$0.11 for all motor fuel used by commercial motor carriers operating on Indiana highways.

FY90	\$54,159.1	FY94	\$60,561.8	FY98	\$93,552.6
FY91	\$71,996.4	FY95	\$78,437.4	FY99	\$90,232.4
FY92	\$64,114.0	FY96	\$67,380.2	<b>FY00</b>	<b>\$76,747.4</b>
FY93	\$64,483.5	FY97	\$61,220.0	CHANGE	-14.9%

**Motor Vehicle Excise Tax**

Specific compliance program authorized by statute aimed at locating vehicles owned by Indiana residents and registered illegally out of state, thus avoiding State Vehicle Excise Tax. Based on the age and class of vehicle, plus penalty and interest for the time period vehicle is illegally registered. (Except for this program, Motor Vehicle Excise Tax is otherwise collected by the Bureau of Motor Vehicles.)

FY90	\$ 236.6	FY94	\$ 923.8	FY98	\$468.6
FY91	\$1,049.4	FY95	\$ 631.4	FY99	\$281.4
FY92	\$1,450.1	FY96	\$ 832.1	<b>FY00</b>	<b>\$122.1</b>
FY93	\$ 722.3	FY97	\$ 732.1	CHANGE	-56.6%

**Pari-mutuel Admission Tax**

Imposed at \$0.20 for each person who pays an admission charge to a racetrack grounds or satellite facility. *(The following amounts have been verified by the Indiana Horse Racing Commission.)*

FY90	—	FY94	—	FY98	\$29.6
FY91	—	FY95	\$74.9	FY99	\$26.0
FY92	—	FY96	\$62.7	<b>FY00</b>	<b>\$21.4</b>
FY93	—	FY97	\$34.8	CHANGE	-17.7%

**Pari-mutuel Wagering Tax**

A 2% levy is imposed on the total amount of money wagered on line races and simulcasts conducted **at a permit holder's racetrack**. The tax is 2.5% of the total amount of money wagered on simulcasts from **satellite facilities**. *(The following amounts have been verified by the Indiana Horse Racing Commission.)*

FY90	—	FY94	—	FY98	\$3,499.1
FY91	—	FY95	\$1,397.7	FY99	\$3,648.5
FY92	—	FY96	\$3,211.9	<b>FY00</b>	<b>\$3,751.7</b>
FY93	—	FY97	\$3,450.2	CHANGE	2.8%

**Petroleum Severance Tax**

Levied against producers or owners of crude oil or natural gas and imposed at the time these products are removed from the ground at a rate equal to the greater of either 1% of the petroleum value, or \$0.03 per 1,000 cubic feet for natural gas and \$0.24 per barrel of oil.

FY90	\$795.7	FY94	\$696.4	FY98	\$642.5
FY91	\$802.5	FY95	\$653.2	FY99	\$506.3
FY92	\$762.5	FY96	\$574.0	<b>FY00</b>	<b>\$467.0</b>
FY93	\$694.7	FY97	\$614.9	CHANGE	-7.8%

**Public Utility Tax (Railroad Car Companies/Railroads)**

Based each year on assessments by the State Board of Tax Commissioners on the indefinite-situs distributable property of a railroad company that provides service within a commuter transportation district.

FY90	\$3,342.3	FY94	\$4,267.1	FY98	\$5,080.2
FY91	\$3,541.4	FY95	\$4,440.6	FY99	\$5,786.7
FY92	\$3,546.6	FY96	\$4,894.7	<b>FY00</b>	<b>\$5,996.7</b>
FY93	\$3,944.7	FY97	\$5,077.9	CHANGE	3.6%

**Riverboat Admissions Tax**

Specific to any licensed riverboat on Indiana waterways at a rate of \$3.00 per person admitted. Collection of this tax began in December, 1995.

FY90	—	FY94	—	FY98	\$ 90,921.4
FY91	—	FY95	—	FY99	\$110,745.4
FY92	—	FY96	\$4,597.7	<b>FY00</b>	<b>\$116,565.6</b>
FY93	—	FY97	\$56,262.5	CHANGE	5.3%

### Riverboat Waging Tax

A tax of 20% of a licensed riverboat's adjusted gross receipts: total wagers, less payouts, less uncollected gaming receivables. Collection of this tax began in December, 1995.

FY90	—	FY94	—	FY98	\$231,890.1
FY91	—	FY95	—	FY99	\$295,181.4
FY92	—	FY96	\$13,354.7	<b>FY00</b>	<b>\$328,200.8</b>
FY93	—	FY97	\$146,084.1	CHANGE	11.2%

### Sales and Use Tax

A 5% tax on purchases of tangible personal property, public utility service and some renter transactions, which is collected at the retail level (except for gasoline).

FY90	\$2,089,401.8	FY94	\$2,600,667.8	FY98	\$3,278,755.6
FY91	\$2,154,512.7	FY95	\$2,810,403.8	FY99	\$3,414,847.5
FY92	\$2,216,489.3	FY96	\$2,965,275.9	<b>FY00</b>	<b>\$3,687,291.7</b>
FY93	\$2,340,876.4	FY97	\$3,145,959.5	CHANGE	8.0%

### Special Fuel Tax

A license tax of \$0.16 per gallon imposed on all special fuel sold or used in producing or generating power for propelling motor vehicles.

FY90	\$ 95,712.3	FY94	\$125,911.3	FY98	\$180,708.3
FY91	\$ 95,633.3	FY95	\$124,399.8	FY99	\$220,690.4
FY92	\$ 94,888.3	FY96	\$143,727.0	<b>FY00</b>	<b>\$230,122.4</b>
FY93	\$108,162.2	FY97	\$169,594.0	CHANGE	4.3%

### MISCELLANEOUS FEES:

#### Aircraft Registration Fee

All Indiana aircraft are required to be registered with the Aeronautics Section of the Compliance Division where an annual \$10 registration/transfer fee is collected. An additional fee of \$20 or 20% (whichever is greater) of the unpaid excise tax is charged on all late registrations. There is also an annual aircraft dealers fee of \$25.

FY90	—	FY94	\$71.7	FY98	\$70.2
FY91	—	FY95	\$70.1	FY99	\$65.1
FY92	—	FY96	\$68.0	<b>FY00</b>	<b>\$79.6</b>
FY93	—	FY97	\$68.4	CHANGE	22.3%

#### Charity Gaming Licensing Fee

Licensing fee for qualified organizations is \$25 for the first license. Second license for the same charity gaming activity is based on gross receipts of previous event. Annual license for distributors is \$2,000. Annual license for manufacturers is \$3,000.

FY90	—	FY94	\$2,557.5	FY98	\$3,950.1
FY91	—	FY95	\$3,264.7	FY99	\$4,264.6
FY92	\$ 184.5	FY96	\$3,635.1	<b>FY00</b>	<b>\$4,328.0</b>
FY93	\$1,582.1	FY97	\$3,997.2	CHANGE	1.5%



### Employment Agency Licensing Fee

A person, firm or corporation opening, operating or maintaining an employment agency must pay an annual \$150 fee for each license.

FY90	\$41.7	FY94	\$35.2	FY98	\$53.1
FY91	\$39.5	FY95	\$40.2	FY99	\$51.3
FY92	\$36.3	FY96	\$42.2	<b>FY00</b>	<b>\$51.6</b>
FY93	\$33.8	FY97	\$37.7	CHANGE	0.6%

### Hazardous Chemical Fee

An annual fee is imposed on a facility which must submit to the state an emergency and hazardous chemical inventory form. Fees are \$50, \$100 or \$200, depending on the volume of hazardous chemicals present at the facility during the year.

FY90	\$337.9	FY94	\$655.8	FY98	\$623.1
FY91	\$542.4	FY95	\$653.8	FY99	\$576.4
FY92	\$679.9	FY96	\$652.2	<b>FY00</b>	<b>\$546.2</b>
FY93	\$644.8	FY97	\$650.5	CHANGE	-5.2%

### International Registration Plan (IRP) Licensing Fee

Licensing fee for motor carriers based on miles driven in specific jurisdictions. (Formerly administered by the Bureau of Motor Vehicles.)

FY90	—	FY94	—	FY98	\$71,577.9
FY91	—	FY95	—	FY99	\$75,941.9
FY92	—	FY96	\$67,140.5	<b>FY00</b>	<b>\$89,320.1</b>
FY93	—	FY97	\$74,300.4	CHANGE	17.6%

### Intrastate Title and Registration Fee

Motor carriers who have vehicles registered and plated under the International Registration Plan may also register and plate any intrastate vehicles they own in weight classes of 26,000 to 80,000 pounds. Fee is based on vehicle weight class, and can also be paid through the Bureau of Motor Vehicles. (\*Department assumed collection duties as of June 7, 1999.)

FY90	—	FY94	—	FY98	—
FY91	—	FY95	—	FY99	\$ .9
FY92	—	FY96	—	<b>FY00</b>	<b>\$504.1*</b>
FY93	—	FY97	—		

### Motor Carrier, Safety and Insurance Fees

Proof of insurance and documentation of safety compliance is required from all intrastate carriers who haul for hire, as well as any carrier of hazardous materials. Interstate carriers provide the same information via the Single State Registration System. An annual registration fee of \$10.00 is imposed per vehicle registered. Additionally, all intrastate carriers which haul household goods or passengers for hire must have Indiana operating authority, with fees ranging from \$15.00 to \$100.00, depending upon the transaction.

FY90	—	FY94	\$1,960.9	FY98	\$1,958.7
FY91	\$1,943.1	FY95	\$2,148.2	FY99	\$2,169.2
FY92	\$1,847.5	FY96	\$2,043.1	<b>FY00</b>	<b>\$2,385.7</b>
FY93	\$1,919.5	FY97	\$2,160.2	CHANGE	10.0%

### Oversize /Overweight Permit Fee

Various categories of permits for motor carriers that are issued for different periods of time, based upon a vehicle's specific dimension and /or size and the travel activity. Fees can range from \$10.00 to over \$400.00. (Formerly administered by the Indiana Department of Transportation.)

FY90	—	FY94	—	FY98	\$11,252.7
FY91	—	FY95	—	FY99	\$11,528.3
FY92	—	FY96	\$ 3,701.8	<b>FY00</b>	<b>\$12,782.3</b>
FY93	—	FY97	\$ 9,844.3	CHANGE	10.9%

### Restricted Agricultural Driver's License Fee

A restricted Agricultural Driver's License is issued for specific farming activity during the planting and harvesting seasons of April 2 – June 30 and September 2 – November 30 for a \$25 fee. The fee is collected for each restricted agricultural license issued. (\*Formerly administered by the Bureau of Motor Vehicles. Department assumed duties as of May 17, 1999.)

FY90	—	FY94	—	FY98	—
FY91	—	FY95	—	FY99	\$ .1
FY92	—	FY96	—	<b>FY00</b>	<b>\$6.7*</b>
FY93	—	FY97	—		

### Solid Waste Management Fee

Imposed on the disposal or incineration of solid waste in a final disposal facility within the state at a rate of \$.50 per ton of waste generated in the state. For solid waste generated outside the state, the rate is the greater of \$.50 per ton or the cost per ton of disposing the solid waste, including the tipping fees and state and local government fees, in the final disposal facility that is closest to the area in which the solid waste was generated, minus the fee actually charged for the disposal or incineration of the solid waste by the owner or operator of the final disposal facility.

FY90	—	FY94	\$3,421.0	FY98	\$4,623.0
FY91	\$1,232.3	FY95	\$3,789.6	FY99	\$4,612.7
FY92	\$2,539.1	FY96	\$3,850.6	<b>FY00</b>	<b>\$4,516.8</b>
FY93	\$3,896.1	FY97	\$4,494.4	CHANGE	-2.1%

### Underground Storage Tank Fee

An annual fee of \$200 per tank is imposed on owners of underground storage tanks. In addition, there is an annual registration fee of \$90 for each underground petroleum storage tank; and \$45 for each underground storage tank containing regulated substances other than petroleum.

FY90	—	FY94	\$7,564.4	FY98	\$28,758.5*
FY91	\$8,908.3	FY95	\$ 8,344.3	FY99	\$26,409.5
FY92	\$8,039.3	FY96	\$ 6,580.6	<b>FY00</b>	<b>\$27,709.5</b>
FY93	\$7,000.5	FY97	\$ 8,481.2	CHANGE	4.9%

*\*Beginning in July 1, 1997, the oil inspection fees increased from \$.0008 cents per gallon to \$.008 cents per gallon.*

### Waste Tire Management Fee

A \$.25 tire fee is assessed on each new tire sold at retail and each new tire mounted on a vehicle at the time a vehicle is sold. Imposed on tires for self-propelled motor vehicles only.

FY90	—	FY94	\$ 869.2	FY98	\$1,253.6
FY91	—	FY95	\$1,304.1	FY99	\$1,963.8
FY92	—	FY96	\$1,266.7	<b>FY00</b>	<b>\$3,203.6</b>
FY93	—	FY97	\$1,333.2	CHANGE	63.1%

# AUDIT DIVISION STATISTICAL SUMMARY

*The following information is based on 100% of the audits completed, taxpayers assisted and special projects conducted during Fiscal Year 2000, and addresses the requirements set forth by IC 6-8.1-14-4(2).*

*See Page 40 for an Index of exhibits and charts included.*

- Taxpayers Served in District Offices, Pg. 33
- Special Projects, Pg. 34
- Gross Income Tax Violations, Pg. 34
- Sales/Use Tax Violations, Pg. 34
- Corporate Adjusted Gross Income Tax Violations, Pg. 34
- Amounts of Tax Assessed, Pg. 35
- Industry/Business Most Frequently in Violation, Pg. 35
- Special Tax Violations, Pg. 35
- Miscellaneous Taxes and Penalties Pg. 36
- Number of Years in Audit Period Pg. 36
- Use of Professional Tax Preparation Assistance, Pg. 36
- Filing of Appropriate Tax Returns, Pg. 36

## **Taxpayers Served In District Offices**

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and assistant taxpayer assistance supervisor who perform taxpayer service functions as well as other office support responsibilities. Some offices have a field investigator who supports taxpayer assistance. Field investigators also perform collection functions in their districts. Contract employees are available throughout the year to support taxpayer assistance.

The "Taxpayer Assistance Report" (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office. Exhibit A reveals during Fiscal Year 2000 district offices assisted 209,079 taxpayers in person and

316,190 taxpayers through telephone contact. Total taxpayers served by the district offices are 525,269. The district office in Clarksville served 28,417 taxpayers in person, the highest number of any district office. The Kokomo District Office served 26,038 taxpayers in person, the second highest total.

The Bloomington District Office served 41,212 taxpayers by telephone while the Terre Haute District Office served 39,012 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, representing 13% and 12% respectively. The Bloomington District Office served a total of 62,590 taxpayers by telephone and walk-in assistance while Clarksville served 61,062 taxpayers by telephone and walk-in assistance.

"Taxpayer Assistance/Special Project Statistics" (Exhibit B) provides the number of hours devoted by field auditors in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 9,388 auditor hours were channeled in this direction.

### Special Projects

The Audit Division during the 2000 fiscal year pursued one special project, Comply 2000. The Comply 2000 project commenced at the conclusion of Project Comply 1999 and was conducted statewide. These audits identified candidates that were usually small and would normally not meet the criteria for a regular audit examination. The results of Project Comply 2000 are:

Audits Completed	1,460
Assessments	\$1,434,376
Refunds	\$ (176,426)
Average Hours Per Audit	19.03

### Gross Income Tax Violations

The most frequently violated gross income tax rule is 45 IAC 1.1-2-5, which defines taxability of gross receipts from services. Violations of this rule accounted for 59 or 14.50% of all violations of the gross income tax rules in the statistics. This was also the most frequently violated rule in the previous three studies, accounting for 17.42% in 1999, 12.03% in 1998 and 12.26% in 1997 fiscal years.

The second most frequently violated gross income tax rule is 45 IAC 1.1-3-3. This rule defines the interstate commerce exemption as applied to gross receipts. This rule was inappropriately applied according to regulations affording taxpayers more exclusions from gross receipts. 45 IAC 1.1-3-3 accounted for 42 or 10.32% of gross income tax rule violations. This specific rule has not previously appeared in the study.

Ranking third and accounting for 36 or 8.85% of the gross income tax rule violations is Rule 45 IAC 1.1-1-10. This rule defines receipts to mean the entire gross income or gross receipts received by a taxpayer, actually or constructively, without any deduction of any kind or nature. This regulation ranked as the second most violated regulation in the 1999 study with a 7.17% rate of error. The 1998 study revealed the third ranked rule to be 45 IAC 1.1-1-10 with an error rate of 6.39%.

### Sales/Use Tax Violations

The current fiscal year and previous statistical studies reveal the three most violated sales and use tax rules are the same for Fiscal Years 2000, 1999 and 1998. The rules are shown below with their percentage of total

violations for the three years.

		<u>2000</u>	<u>1999</u>	<u>1998</u>
#1	45 IAC 2.2-3-4	15.38%	15.64%	16.52%
#2	45 IAC 2.2-3-20	14.72%	14.62%	12.55%
#3	45 IAC 2.2-5-8	9.91%	9.48%	10.20%

Rule 45 IAC 2.2-3-4 imposes use tax on "tangible personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used, or otherwise consumed in Indiana . . . unless the Indiana state gross retail tax (sales tax) has been collected at the point of purchase." This rule was violated 694 times in the 2000 fiscal year, 658 times during the 1999 fiscal year as opposed to 687 times for the 1998 fiscal year.

Rule 45 IAC 2.2-3-20 states that if the seller of tangible personal property for storage, use, or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit use tax directly to the Department. This rule accounted for 664 violations in the 2000 fiscal year, 615 violations for the 1999 fiscal year while 522 violations occurred for the 1998 fiscal year.

The third most violated sales and use tax rule is 45 IAC 2.2-5-8. This rule clarifies the sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools, and equipment used in direct production and other activities. The failure of taxpayers to comply with this rule accounts for 447 of the 2000 fiscal year violations and 399 of the 1999 fiscal year violations. This rule accounted for 424 violations during the 1998 fiscal year.

### Corporate Adjusted Gross Income Tax Violations

Corporate taxpayers violated adjusted gross income Rule 45 IAC 3.1-1-97 more than any other rule. This rule addresses the returns and reports that must be filed by adjusted gross income tax withholding agents. Violations (273) of this rule accounted for 22.00% of the total violations. This was also the most violated rule in the 1999 study accounting for 21.78% of the total violations while the 1998 study revealed 20.92% of the violations.

Rule 45 IAC 3.1-1-8 was the second most frequently violated rule under this study. This rule states that "taxable income" as defined in the Internal Revenue Code is modified in several ways to arrive at Indiana adjusted gross income. These violations (223) account for 17.97% of the total violations in 2000. The 1999 review showed a 15.37% violation rate while 1998 violations represented 16.58% of the rule.

The third most frequently violated rule is 45 IAC 3.1-1-9. This rule deals with the adoption of modifications as de-

fined in the Internal Revenue Code. More specifically, it allows a net operating loss as a deduction in computing Indiana Adjusted Gross Income (IRS Code Section 172). This rule accounts for 107 or 8.62% of the violations of adjusted gross income tax rules. The 1999 and 1998 violations for this rule also ranked third with 8.19% and 7.07% respectively.

### Amounts of Tax Assessed

Exhibits C, D and E display the amount of assessments (refunds) and violations of the gross income tax, sales tax and adjusted gross income tax administrative rules, respectively. "Total assessments" for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most frequent violations and the percentage of the amount to total net assessments are presented below:

#### Gross Income Tax—Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-5	\$1,874,214	22.50%
45 IAC 1.1-3-3	\$ (87,225)	(1.05%)
45 IAC 1.1-1-10	\$ 154,984	1.86%

#### Sales/Use Tax—Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-4	\$2,656,169	9.97%
45 IAC 2.2-3-20	\$8,712,268	32.69%
45 IAC 2.2-5-8	\$4,275,461	16.04%

#### Corporate Adjusted Gross Income Tax—Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-97	\$ 540,963	4.70%
45 IAC 3.1-1-8	\$ 7,541,437	65.51%
45 IAC 3.1-1-9	\$(5,595,392)	(48.60%)

### Industry /Business Most Frequently In Violation

#### Gross Income Tax:

For the eighth consecutive time, taxpayers engaged in manufacturing most frequently violated the gross income tax rules. This group committed 149 violations or 36.61% of the total violations. The gross income tax rule most frequently violated by this group of taxpayers was 45 IAC 1.1-3-3. This rule defines the interstate commerce

exemption.

The second largest number of gross income tax violations was committed by taxpayers in the wholesale industry. This group committed 103 infractions or 25.31% of the total violations. The service industry ranked second in the 1995 and 1999 studies. Wholesalers and retailers were the second most frequent violators of these rules in the 1994, 1996, 1997 and 1998 studies. The wholesale industry most violated rule for 2000 was 45 IAC 1.1-3-11, which defines taxation of special corporations.

#### Sales and Use Tax:

For the 2000 reporting period, the service industry replaced the wholesaler/retailers as the industry with the most frequent violations. The service industry accounted for 1437 violations or 31.86% of the total sales and use tax violations. The most frequently violated rule by the service industry was 45 IAC 2.2-3-20, which deals with remitting use tax.

Wholesalers and retailers were the second most frequent violators of the sales and use tax rules. There were 1397 violations committed by this group representing 30.97% of the total violations. The rule most frequently violated by wholesalers and retailers was 45 IAC 2.2-3-4, which clarifies the use tax due on tangible personal property. The previous eight years statistics showed wholesalers and retailers were the most frequent violators of the sales and use tax rules.

#### Adjusted Gross Income Tax:

Service providers with 403 infractions, were the most frequent violators of adjusted gross income tax rules. This figure represents 32.47% of the total adjusted gross income tax violations.

Manufacturers were the second most frequent violators of the adjusted gross income tax rules. They committed 330 infractions or 26.59% of the adjusted gross income tax violations.

The service industry most violated rule 45 IAC 3.1-1-97. This regulation addresses returns and reports of withholding agents under adjusted gross income tax. The rule most violated by the manufacturers was 45 IAC 3.1-1-8. It deals with IRS Code modifications to arrive at Indiana adjusted gross income.

### Special Tax Violations

Exhibit G provides the number of special tax rule violations and the amount of special tax assessments and refunds.

Article VIII (citation R800 on exhibit) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless proof to the contrary is provided by the licensee. Article VIII was violated 170 times and yielded \$286,760 in net assessments for the State of Indiana. This represents 26.28% of total violations.

The exhibit also reveals that Article X (citation R1000 on exhibit) of the International Fuel Tax Agreement (IFTA) was the second most frequently violated section of the special tax statutes. This Article discusses how taxpayers can obtain credit for tax paid on purchases of fuel. It also lists the records needed to substantiate the refund request. This article was violated 159 times accounting for 24.57% of the total violations. These violations resulted in refunds of \$(78,057).

The taxpayer group most frequently in violation of the special tax statutes and IFTA Articles was the transportation industry. This group committed 244 violations accounting for 37.71% of the total infractions. Article VIII of the International Fuel Tax Agreement was most frequently violated by the transportation industry.

### **Miscellaneous Taxes and Penalties**

Exhibit F provides the number of violations and assessment amounts of the following:

Financial Institutions Tax  
Penalty and Interest Assessments  
Food and Beverage Tax  
Innkeeper's Tax

A review of this exhibit reveals that 45 IAC 15-9-2 was violated 30 times. This regulation defines the statute of limitations as it applies to refunds. These violations yielded \$(124,770) in net refunds.

The 13 violations of IC 6-8.1-4-2 yielded a total of \$(261,184) in refunds. This code section addresses access to accounting records of a business and the use of sampling techniques for auditing purposes.

### **Number of Years in the Audit Period**

The audit period was three years.

### **Use of Professional Tax Preparation Assistance**

The services of professional preparers were used in the preparation of 75.50% of the corporate income tax returns and 11% of the sales tax returns. These findings remain consistent with the previous years' reports.

### **Filing of Appropriate Tax Returns**

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal year ending in 2000, the study indicates 15 violations of this rule, resulting in assessments in the amount of \$923,515 and refunds totaling \$(10,223).

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2000 study period. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 1999 study were zero while the 1998 report showed 1 violation.

# RECOMMENDATIONS FOR IMPROVING TAXPAYER COMPLIANCE AND DEPARTMENT ADMINISTRATION

- Taxpayer's Concerns and Suggestions to Department, Pg. 37
- Improvements in the Training of Department Employees, Pg. 38
- Improvements in Taxpayer Communication and Education, Pg. 39
- Increases in the Enforcement Capability of the Department, Pg. 39

## ■ TAXPAYERS' CONCERNS AND SUGGESTIONS TO DEPARTMENT

On June 20, 2000, the Indiana Department of Revenue conducted its **Annual Public Hearing** in accordance with the Taxpayer's Bill of Rights (IC 6-8.1-14). State Revenue Commissioner Kenneth L. Miller presided at the Indianapolis meeting. As in previous years, the hearing's announcement was contained in the IT-40 Individual Income Tax Booklet, distributed through news releases and posted on the Department's Internet website. Taxpayers were provided with the option of attending the hearing in person or submitting written comments.

The Department has reviewed the proposals offered by the taxpayers as follows:

### **\$1,000 Income Tax Exemption**

All taxpayers are allowed a \$1,000 exemption on their Indiana tax return for each exemption they claim on their federal return. However, a taxpayer attending the hearing voiced his opinion that the exemption should be increased for inflation since it has not been increased since 1985. He says that the federal government started doing this since 1984 when the federal exemption was \$1,000 and today it is \$2,800. Any change in the amount of the exemption would have to be approved by the Indiana General Assembly. The Department does note, however, that a \$1,500 exemption for certain dependent children was allowed in 1999, an increase of \$1,000 from the prior year.

### **Exemption for Dependent Children**

A taxpayer also believes that the exemption for dependent children should be changed to allow for grandchildren to qualify in those instances when grandparents are raising them, which he also believes to be more common in today's society. According to state statute, the dependent child must be a son, stepson, daughter, stepdaughter and / or foster child who is the taxpayer's child (and / or taxpayer's spouse's child if filing a joint return). Grandchildren do not qualify; legislation would be required.

### **Amended Returns**

A complaint was made that when taxpayers file an amended return, they never receive any further information or if they do, there seems to be a delay. The Department will review its procedures regarding amended returns and any backlog.

### **Retirees**

A group of three individuals voiced their concerns about their tax status as retired Indiana citizens. Most of their concerns were in regard to Social Security benefits versus exemption of retirement benefits as former federal employees. One stated that she thought retired federal employees are penalized when it comes to state taxes, or in the case of one taxpayer who is now widowed, she can no longer receive a \$2,000 exemption from the state since her deceased husband was a civil service employee and not her. It was also pointed out that our surrounding states exempt retirees from state taxes. It is true that Indiana does tax most pension benefits. A \$2,000 deduction can be taken if a taxpayer's Federal Adjusted Gross Income (Line #1 of the state return) includes federal civil service annuity payments and the taxpayer is at least 62 years of age. Any change in these requirements would require approval by the Indiana General Assembly.

### **Information Bulletins**

An individual representing a group of payroll professionals inquired about the Department's website and the status of Information Bulletins. She found many to be outdated. The Department has reviewed the status of Information Bulletins and has started a project to update them on a more timely basis.

### **Tax Reciprocity with Illinois**

An inquiry was made as the status of a reciprocal tax agreement between Indiana and Illinois. Illinois ended its reciprocal agreement with Indiana on January 1, 1998. At the time of the hearing, the taxpayer was informed that the Department was still exchanging information with the Illinois Department of Revenue and no new agreement had been reached.

### **Inability to Resolve Tax Problems**

The Department received a letter in response to its announcement for public comments about tax administration. The letter outlined the taxpayers' frustration in trying to resolve a tax problem with the Department. The taxpayers had tried to contact the Department numerous times and were unsuccessful in either getting a direct response or a call back from a tax analyst. The Department apologizes for its unresponsiveness and has contacted the taxpayer in an attempt to resolve the issue.

### **Form Revision**

One taxpayer, who was unable to attend the Public Hearing, provided his numerous suggestions for changes on the IT-40: 1.) Ask for name first and not Social Security Number or at least ask for them in the similar style that the federal form is patterned where they appear on the same line. The taxpayer finds the present request "rude." 2.) Do not ask if the taxpayer has died during the year. If the taxpayer is deceased just allow someone to write a simple statement on the return. 3.) The request for motor vehicle ownership and authorization section, which allows the Department to confirm information with the Social Security Administration "is self-incrimination and in violation of the state constitution," and/or "harassment." The Department will take the recommendations under advisement.

### **Medical Deductions**

A taxpayer wrote her concerns about the inability to deduct medical expenses from the state return, especially for senior citizens. She pointed out that the State of New York allows such deductions "and should be deductible in every state, but especially, here in Indiana." It is true that there is no deduction on the IT-40 for medical expenses and such a deduction would need approval by the Indiana General Assembly.

### **Military Deduction**

An Indiana resident serving on active duty in the U.S. Army and who has not resided in the state for a long period of time wrote to express his concerns about still having to pay Indiana taxes. He noted the \$2,000 Military Service Deduction, still paid the state \$1,600 in taxes and was "associated with the state in name only." It is true that when an individual joins the military he / she must report a state of residence. If Indiana is regarded as the home state, then state taxes are applicable. Some states exempt military pay; Indiana does not. Any change would require approval by the Legislature.

## **■ IMPROVEMENTS IN THE TRAINING OF DEPARTMENT EMPLOYEES**

### **Audit Division**

Regional seminars were presented to the instate auditors and the out-of-state auditors as part of the Audit Division's Continuing Education Program during the fiscal year ending June, 2000. Topics presented included: Qualified Subchapter S Subsidiaries; corporate partners and partnerships; agency relationship; application of court cases; sales tax treatment of installation charges; separate return limitation years as it pertains to net operating losses; and audit review problems.

The Special Tax auditors held their annual meeting in November, 1999. The discussion subjects included International Fuel Tax Agreement computer programming; single state registration system; cigarette and other tobacco products; International Registration Plan update; gas and oil inspection problems; and audit review issues.

### **Personnel Division**

During the past fiscal year, the Personnel Division hired 71 full time employees and 167 intermittent employees. All intermittent and full time employees attended New Employee Orientation 101 and Basic Ethics. All full time employees also attended a one day orientation within their first month of employment. During the year the following core curriculum classes which are required for all employees were trained.

ABC's of Discrimination  
(Sexual Harassment, EEO and ADA)

ABC's of Discrimination for Supervisors

Customer Service

Cultural Diversity

The Training Section also trained 99 employees on the newly developed computer system. Approximately 90 employees were trained on Word 97. The following classes are in the process of development of new material:

Violence in the Workplace

Progressive Discipline

Performance Appraisals

Supervisory Skills Training



The Department has continued to have a functioning Training Advisory Council to address the Department's training needs.

The Benefits/Payroll Section conducted training for management staff on Family and Medical Leave.

The Health and Safety Committee sponsored First Aid/CPR training for employees in the Indianapolis area. Approximately 12% of our employees are now certified in CPR.

## ■ **IMPROVEMENTS IN TAXPAYER COMMUNICATION AND EDUCATION**

### **Outreach**

#### **Partnership with Another State Agency**

As a part of the Department's outreach program, a brochure was designed with a particular group of taxpayers in mind. It was acknowledged that many of our senior Hoosiers may not be aware of new legislation concerning additional exemptions and deductions they were allowed to take on their State tax returns (additional \$500 exemption for being 65 or older with a federal AGI of less than \$40,000 and the homeowner's property tax deduction up to \$2,500). Included in the brochure were explanations of some existing credits for the elderly.

Besides providing the brochures as handouts at the Governor's Conference on Aging and In-Home Services, the Department partnered with Indiana Family and Social Services Administration (FSSA) in having 10,000 brochures delivered with their In-Home Meal Program across the state. A News Release was shared between the two agencies, in addition to the FSSA's sixteen Area Agencies on Aging receiving copies of the tax brochure, to assist the elderly if they called with questions.

The Department has found that establishing partnerships with other state agencies helps to deliver services to thousands more deserving Hoosiers than either agency could accomplish on its own.

#### **Future Taxpayers**

In its never-ending quest for "voluntary compliance," the Department surmised that there was a group of taxpayers or "future" taxpayers who were not tax savvy. The Department wrote a computer program to teach high school students where their tax dollars go and how to file their state income tax return, as part of their school curriculum. The information was installed in the World Wide Web for easy access from any computer connected to the Internet, throughout the state. The program was tested/used in two pilot schools in FY00.

## ■ **INCREASES IN THE ENFORCEMENT CAPABILITY OF THE DEPARTMENT**

During FY00, the Criminal Investigation Division tracked an increase in Charity Gaming violations, as well as in Dyed Fuel and other motor carrier violations. The Division will become more proactive in the investigation of charity gaming applicants and will pursue criminal violations of license holders, not just civil sanctions of the Indiana Code.

A cooperative effort with the Indiana State Police (ISP) Motor Carrier Division targets oversize/overweight permit violations and the unlawful use of dyed fuel on the highways. The Department's Motor Fuel Tax Evasion investigators are working with ISP's Motor Carrier Enforcement Division to train its officers on how to pull fuel samples and determine which carriers are exempt from the I.R.S. Code but subject to the Special Fuel Tax under Indiana Code.

# EXHIBITS

## **AUDIT DIVISION -- FY00**

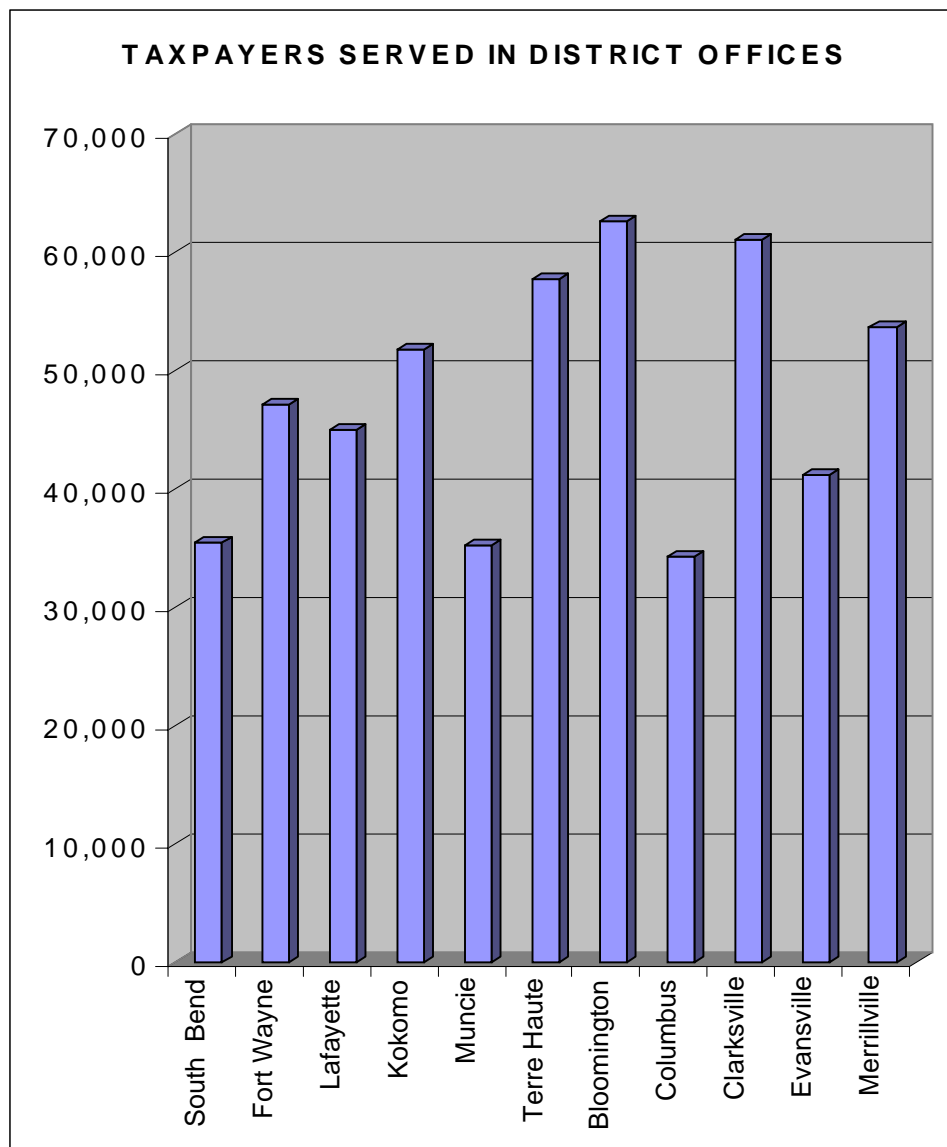
Taxpayer Assistance Report District Offices	Exhibit A	Page 41
Taxpayers Served in District Offices		Page 41
Taxpayer Assistance/Special Project Statistics Field Auditors	Exhibit B	Page 42
Dollars Assessed in 45 IAC Citations by Industrial Code Gross Income Tax Audits	Exhibit C	Pages 43
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Special Tax Code Violations by Industry Group Special Tax Code Dollars Assessed by Industry Group		Page 53 Page 53

## **OTHER**

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# **EXHIBIT A** **Taxpayer Assistance Report - Fiscal Year 2000** **Audit Division District Offices**

	South Bend	Fort Wayne	Lafayette	Kokomo	Muncie	Terre Haute	Bloomington	Columbus	Clarksville	Evansville	Merrillville	Totals
Walk In Assistance	16,679	17,314	21,429	26,038	7,501	18,735	21,378	17,220	28,417	15,411	18,957	209,079
Telephone Assistance	18,786	29,831	23,544	25,782	27,763	39,012	41,212	17,116	32,645	25,823	34,676	316,190
Totals	35,465	47,145	44,973	51,820	35,264	57,747	62,590	34,336	61,062	41,234	53,633	525,269
Collected/Assessed	2,623,973	1,072,445	2,742,641	3,821,150	1,871,404	1,306,986	2,310,512	1,067,093	2,368,136	1,574,117	2,602,396	23,360,853



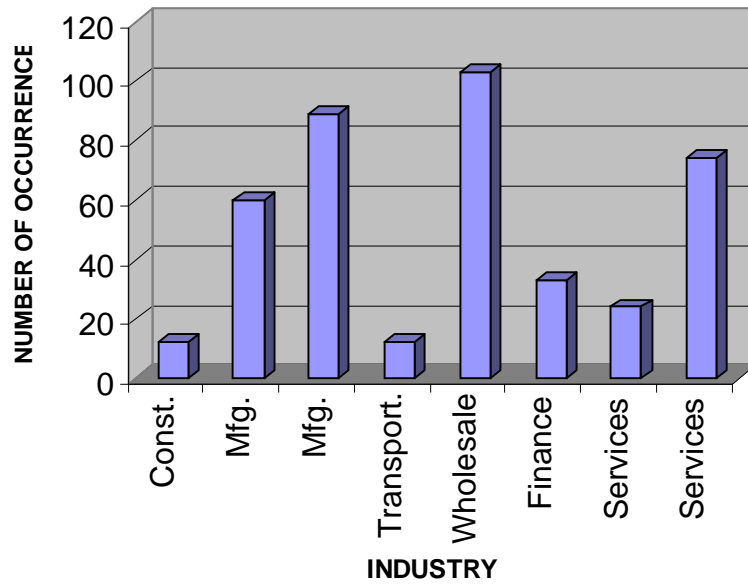
# **EXHIBIT B** **Taxpayer Assistance/Special Project Statistics** **Field Auditors**

Region	Total Hours
Region I (South Bend, Fort Wayne, Merrillville)	2,571
Region II (Lafayette, Kokomo, Muncie)	1,464
Region III* (Indianapolis)	761
Region IV (Terre Haute, Bloomington, Columbus, Clarksville, Evansville)	1,797
Region V (Out Of State Auditors)	0
Region VI (Special Tax Auditors)	2,795
Total - All Regions	
	9,388
*Represents special projects only. Taxpayer assistance provided by Taxpayer Services Division.	
This field auditor information was gathered using information from regional reports indicating hours charged to Administrative-Special Projects and Administrative-Taxpayer Services.	

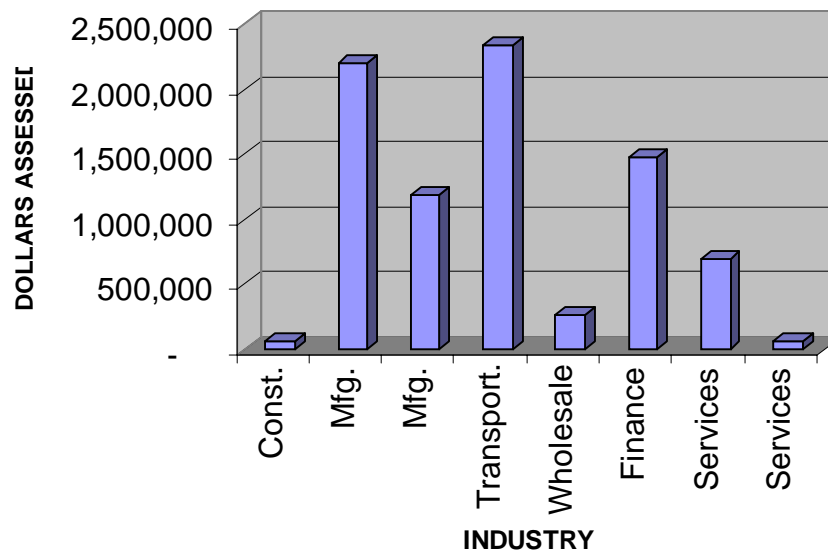
**EXHIBIT C**  
**Dollars Assessed in 45 IAC Citation by Industrial Code**  
**Gross Income Tax Audits**

Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Results	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 1.1-1-10	167	(146,924)	275,813	499	5,039	(51,522)	12,595	59,317	154,984
45 IAC 1.1-1-11					5,047	216,465			221,512
45 IAC 1.1-1-18			1,680			(11,434)			(9,754)
45 IAC 1.1-1-2						(59,778)	19,041		(40,737)
45 IAC 1.1-1-20			1,363		(10,962)	237,633		28,811	256,845
45 IAC 1.1-1-22	(27,429)	65			652		58,939	1,743	33,970
45 IAC 1.1-1-23		(5,949)							(5,949)
45 IAC 1.1-1-24			5,104					5,270	10,374
45 IAC 1.1-1-3			9,792	2,268,682	743,031		5,536		3,027,041
45 IAC 1.1-1-4		302,500	120,949	22,426	128,649	33,100		634	608,258
45 IAC 1.1-1-5		1,931,720	(48,506)	22,435	65	304,431			2,210,145
45 IAC 1.1-1-6		21,319	3,411					24,525	49,255
45 IAC 1.1-1-8		5,500							5,500
45 IAC 1.1-1-9			(1,028)					400	(628)
45 IAC 1.1-2-1		(183,207)	(17,000)		(51,362)		6,063	9,000	(236,506)
45 IAC 1.1-2-10		493	264		3,961	63,889	(10,021)	2,223	60,809
45 IAC 1.1-2-11							61,553		61,553
45 IAC 1.1-2-12	81,619		25,903		(1,303)	8,733		50,151	165,103
45 IAC 1.1-2-13		2,800	23,000	3,034	(8,203)	(67,523)			(46,892)
45 IAC 1.1-2-19			31,767		3,069			61,485	96,321
45 IAC 1.1-2-2		3,305	528,888		13,888			7,923	554,004
45 IAC 1.1-2-4	13,561	585	(9,273)		123,348		320	10,331	138,872
45 IAC 1.1-2-5		274,111	82,309	47,297	196,501	649,651	515,228	109,117	1,874,214
45 IAC 1.1-26						582	35,620		36,202
45 IAC 1.1-2-7							575		575
45 IAC 1.1-2-8		13,167	3,566		8,629	491		3,356	29,209
45 IAC 1.1-2-9							37		37
45 IAC 1.1-3-11			8,723		(989,785)	(688)		(15,617)	(997,367)
45 IAC 1.1-3-12						(24,570)			(24,570)
45 IAC 1.1-3-14			3,620						3,620
45 IAC 1.1-3-3	(231)	(53,923)	322,648	(4,485)	92,514	(318,586)		(125,162)	(87,225)
45 IAC 1.1-3-5					(23,337)				(23,337)
45 IAC 1.1-3-6					1,700			4,585	6,285
45 IAC 1.1-3-9								669	669
45 IAC 1.1-4-1			(39)					(2,916)	(2,955)
45 IAC 1.1-4-2		3,036		355	(97)				3,294
45 IAC 1.1-4-4			5,164						5,164
45 IAC 1.1-4-5		29,875							29,875
45 IAC 1.1-5-1		(725)			21,251	222,171			242,697
45 IAC 1.1-5-2		3,000	(202,350)						(199,350)
45 IAC 1.1-5-3						(1,582)		(9)	(1,591)
45 IAC 1.1-5-8		6,054			5,006			7,683	18,743
45 IAC 1.1-6-2	1,518		11,162	(14,594)		283,515	(6,920)	(172,213)	102,468
Grand Total	69,205	2,206,802	1,186,930	2,345,649	267,301	1,484,978	698,566	71,306	8,330,737

**GROSS INCOME TAX VIOLATIONS BY INDUSTRY GROUP**



**GROSS INCOME TAX DOLLARS ASSESSED BY INDUSTRY GROUP**



**EXHIBIT D**  
**Dollars Assessed in 45 IAC Citations by Industrial Code**  
**Sales and Use Tax Audits**

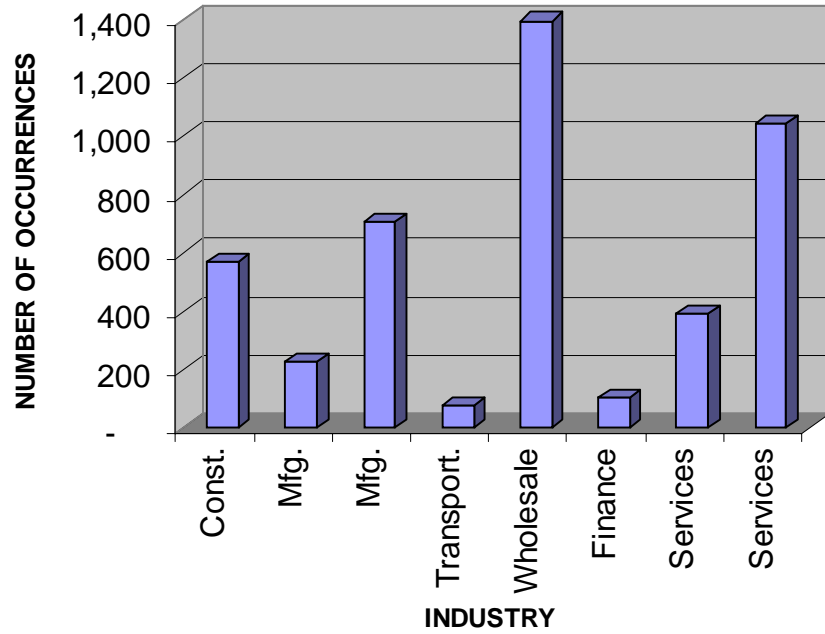
Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Amount	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 2.2-1-1	1,875	29,827	(6,170)		379,482	1,378	15,763	23,426	445,581
45 IAC 2.2-1-2					2,494				2,494
45 IAC 2.2-2-1	139,145	352	11,145	85,802	98,195		11,880	95,443	441,962
45 IAC 2.2-2-2	4,741	3,310	27,024		408,570		27,923	235,182	706,750
45 IAC 2.2-2-3		1,528			245,852		10,903		258,283
45 IAC 2.2-2-4							5,561		5,561
45 IAC 2.2-3-10	35,646				2,200			5,495	43,341
45 IAC 2.2-3-11			4,151						4,151
45 IAC 2.2-3-12	221,245	995	1,120	2,208	4,575		(5,500)	(617)	224,026
45 IAC 2.2-3-13	3,042	12,386	56,679	248	19,729	23,500	3,800	17,131	136,515
45 IAC 2.2-3-14					34,991			(200)	34,791
45 IAC 2.2-3-15	9,610	1,965	25,758	19,553	32,642		7,820	80,415	177,763
45 IAC 2.2-3-16	3,700				29,043		228	17,984	50,955
45 IAC 2.2-3-18	2,826		2,871		10,961	10,997	1,531	577	29,763
45 IAC 2.2-3-19								37,602	37,602
45 IAC 2.2-3-20	120,959	1,136,426	466,417	20,319	468,234	139,374	2,226,841	4,133,698	8,712,268
45 IAC 2.2-3-22	1,700				1,218				2,918
45 IAC 2.2-3-24					571				571
45 IAC 2.2-3-25			137,215		2,526	6,973	1,700	2,283	150,697
45 IAC 2.2-3-27			(542)		509			4,442	4,409
45 IAC 2.2-3-3							21,363	38,443	59,806
45 IAC 2.2-3-4	124,317	129,020	349,375	93,295	896,249	376,656	219,542	467,715	2,656,169
45 IAC 2.2-3-5	2,000	190,934	50	17,418	22,102	1,400	12,477	150	246,531
45 IAC 2.2-3-6							405,000		405,000
45 IAC 2.2-3-7	1,541		42,990		4,957				49,488
45 IAC 2.2-3-8	(587)	397	3,245		509	246	9,282	789,778	802,870
45 IAC 2.2-3-9	196,885		140		72,579	378	395,669	4,041	669,692
45 IAC 2.2-4-1	7,190	3,609	89,493	7,339	533,984	1,672	125,465	391,934	1,160,686
45 IAC 2.2-4-11			400						400
45 IAC 2.2-4-12								(538)	(538)
45 IAC 2.2-4-13	(18,807)	(121,477)	(194,553)		(28,999)			(144,353)	(508,189)
45 IAC 2.2-4-14			186					(1,119)	(933)
45 IAC 2.2-4-2	71,153	12,269	(38,615)	1,126	18,919	(8,843)	52,361	(23,563)	84,807
45 IAC 2.2-4-21	(186,958)	207			649			15,950	(170,152)
45 IAC 2.2-4-22	89,243	1,620	8,382		(10,706)	952		3,439	92,930
45 IAC 2.2-4-23	5,241				3,445			3,245	11,931
45 IAC 2.2-4-25					146			910	1,056
45 IAC 2.2-4-26	104,694	16,919	291	13,252	4,529			(68,129)	71,556
45 IAC 2.2-4-27	25,876	10,716	60,164	11,611	318,971	8,046	77,043	96,116	608,543
45 IAC 2.2-4-28					39,817				39,817
45 IAC 2.2-4-3	25				248	(136)		(2,552)	(2,415)
45 IAC 2.2-4-33				200					200
45 IAC 2.2-4-4			(1,495)					(202)	(1,697)
45 IAC 2.2-4-6	5,009				9			(15,755)	(10,737)
45 IAC 2.2-4-8			339	1,020	4,023	1,504	35,530	18,261	60,677
45 IAC 2.2-4-9					493	49	2,122		2,664
45 IAC 2.2-5-1			(7,800)						(7,800)
45 IAC 2.2-5-10		(1,293)	81,569		(38,683)		175	20,568	62,336

## EXHIBIT D (cont.)

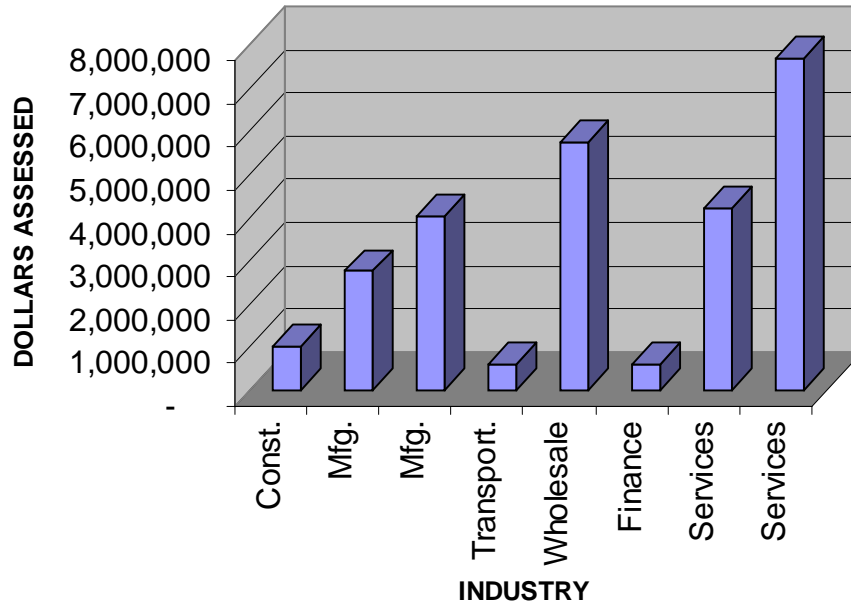
Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Amount	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 2.2-5-11		(186)	(8,720)					4,155	(4,751)
45 IAC 2.2-5-12	22	6,464	15,733		(24,985)		63	17,368	14,665
45 IAC 2.2-5-13	1,420		100		(373)		(317)		830
45 IAC 2.2-5-14	(285)	(2,500)	(88,700)		(1,938)		(550)	8,410	(85,563)
45 IAC 2.2-5-15	(8,168)	(5,679)	(903)	513	(65,695)	(202)	(48,017)	(8,513)	(136,664)
45 IAC 2.2-5-16		33,745	(82,648)		79,258		(1,013)	(7,724)	21,618
45 IAC 2.2-5-17				292,546					292,546
45 IAC 2.2-5-18								43,697	43,697
45 IAC 2.2-5-20					188		1,560		1,748
45 IAC 2.2-5-26	2,191	12,511	14,318	151	14,241	20,018	2,584	7,633	73,647
45 IAC 2.2-5-27					279				279
45 IAC 2.2-5-28								(4,192)	(4,192)
45 IAC 2.2-5-3	(200)		(1,900)	197				569	(1,334)
45 IAC 2.2-5-31								(47)	(47)
45 IAC 2.2-5-34		(223,000)						(108)	(223,108)
45 IAC 2.2-5-35							(1,170)	608	(562)
45 IAC 2.2-5-36			700			200	8,631	102,771	112,302
45 IAC 2.2-5-38					1,390			(9,724)	(8,334)
45 IAC 2.2-5-39			9,775		(44,953)			(9,415)	(44,593)
45 IAC 2.2-5-4		782			22,772			(439)	23,115
45 IAC 2.2-5-40			315		277	149		744	1,485
45 IAC 2.2-5-41			500		944				1,444
45 IAC 2.2-5-42			(3,226)		2,246			956	(24)
45 IAC 2.2-5-43					9,642			3,069	12,711
45 IAC 2.2-5-44					4,036				4,036
45 IAC 2.2-5-45			349		1,134			7,414	8,897
45 IAC 2.2-5-53					(109,977)			(28,058)	(138,035)
45 IAC 2.2-5-54		(25,558)			(2,232)		16,218		(11,571)
45 IAC 2.2-5-55					755			2,920	3,675
45 IAC 2.2-5-6		12,500		1,044	(34,131)			(246)	(20,833)
45 IAC 2.2-5-61	3,794	2,312		(130,594)	800			1,038,045	914,357
45 IAC 2.2-5-62	8,446				(1,431)			(54,279)	(47,264)
45 IAC 2.2-5-7			66		(295)				(229)
45 IAC 2.2-5-8	(30,437)	1,460,827	2,720,926	3,670	99,309	3,489	33,345	(15,668)	4,275,461
45 IAC 2.2-5-9	3,780								3,780
45 IAC 2.2-6-1	1,744	8,535	244,096	838	384,234		77,116	7,545	724,108
45 IAC 2.2-6-12					(17,441)				(17,441)
45 IAC 2.2-6-14	(209)	(120)	(49,646)	30,161	(10,352)		109	1,096	(28,961)
45 IAC 2.2-6-15		(4)			(106)				(110)
45 IAC 2.2-6-18					(800)				(800)
45 IAC 2.2-6-8	44,588	12,941	(7,391)	3,117	930,807		210,652	344,931	1,539,645
45 IAC 2.2-7-2				137,006			666		137,672
45 IAC 2.2-7-3					2,086				2,086
45 IAC 2.2-7-7					(9,344)				(9,344)
45 IAC 2.2-8-1			211						211
45 IAC 2.2-8-12	32,579	24,166	5,515	436	912,286	2,762	221,979	(13,137)	1,186,586
45 IAC 2.2-8-6			153,807		19,071			1,866	174,744
45 IAC 2.2-9-4					200		2,547		2,747
Grand Total	1,030,575	2,747,447	4,043,105	612,476	5,746,936	590,562	4,188,882	7,689,447	26,649,430



**SALES AND USE TAX VIOLATIONS BY INDUSTRY GROUP**



**SALES AND USE TAX DOLLARS ASSESSED BY INDUSTRY GROUP**

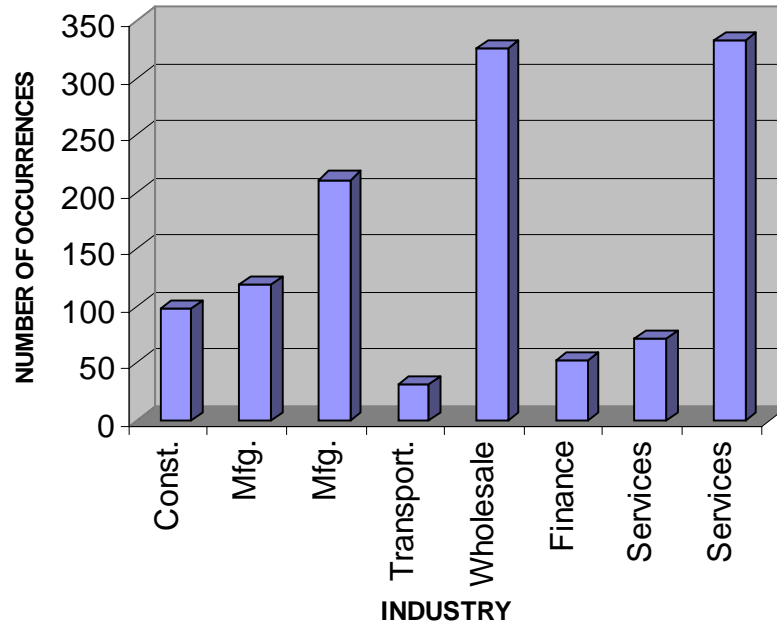


# EXHIBIT E

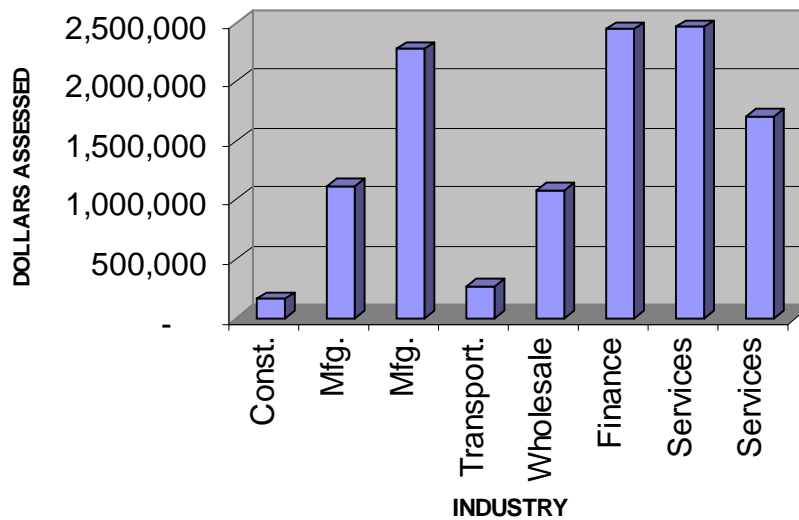
## Dollars Assessed in 45 IAC Citations by Industrial Code Adjusted Gross Income Tax Audits

Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Amount	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 3.1-1-1	1,653		3,114		110,704		7,236	59,979	182,686
45 IAC 3.1-1-100	6,027				1,154				7,181
45 IAC 3.1-1-101	3,186	(213)			9,630			2,282	14,885
45 IAC 3.1-1-103	(135)	(200)	(3,000)		(56)			(1,667)	(5,058)
45 IAC 3.1-1-107			24,818			4,120		233,729	262,667
45 IAC 3.1-1-108							1,107,488		1,107,488
45 IAC 3.1-1-109			102			1,800	18,410	1,401	21,713
45 IAC 3.1-1-111		(718)		76,593				11,992	87,867
45 IAC 3.1-1-152					95,152				95,152
45 IAC 3.1-1-153						126,005			126,005
45 IAC 3.1-1-17							99,915		99,915
45 IAC 3.1-1-19					939				939
45 IAC 3.1-1-2	1,229	849	910	3,437	99,794		100	65,611	171,930
45 IAC 3.1-1-25	19,511	3,358			22,354			22,728	67,951
45 IAC 3.1-1-27			(4,000)						(4,000)
45 IAC 3.1-1-29		404,411	(342)			72,185			476,254
45 IAC 3.1-1-3	1,845				(5,460)		45,608	26,593	68,586
45 IAC 3.1-1-30					867				867
45 IAC 3.1-1-31			(2,628)						(2,628)
45 IAC 3.1-1-37			5,745		1,601			(38,226)	(30,880)
45 IAC 3.1-1-38	(16,615)		(22,609)		81,058	2,015,329	(1,313)	(1,750)	2,054,100
45 IAC 3.1-1-39		10,252	(3,456)		3,000			(5,577)	4,219
45 IAC 3.1-1-40			2,901		275			(16,521)	(13,345)
45 IAC 3.1-1-41		2,370	(1,866)						504
45 IAC 3.1-1-43	2,193		4,619	(1,970)	1,600				6,442
45 IAC 3.1-1-44			577		983				1,560
45 IAC 3.1-1-45	381	3,004	38		1,664		640		5,727
45 IAC 3.1-1-46			458						458
45 IAC 3.1-1-47			19,288		2,200		5,100		26,588
45 IAC 3.1-1-48		5,300	(114,926)	218	6,605	9			(102,794)
45 IAC 3.1-1-49		(3,435)	(121,202)		237			(1,843)	(126,243)
45 IAC 3.1-1-5	944	1,424	701	513	67,887	64,815		60,633	196,917
45 IAC 3.1-1-50		(7,129)	(8,767)	407		5,567	9,115		(807)
45 IAC 3.1-1-51		10,449	(324,397)	49,639	(379)	129,908	11,118	(5,864)	(129,526)
45 IAC 3.1-1-52		105,134	(70,839)	19,925	4,788	5,442	(16,600)	27,165	75,015
45 IAC 3.1-1-53	18,798	1,813	306,391		7,840			1,911	336,753
45 IAC 3.1-1-55						56,739			56,739
45 IAC 3.1-1-56		171,112	862,698		142,890		7,100		1,183,800
45 IAC 3.1-1-58			382,109					2,568	384,677
45 IAC 3.1-1-59	42		34,500				113	10,875	45,530
45 IAC 3.1-1-6								699	699
45 IAC 3.1-1-60			32,583						32,583
45 IAC 3.1-1-62							113,388		113,388
45 IAC 3.1-1-66		7,990	(2,243)	(2,034)	4,722		34,036	(17,881)	24,590
45 IAC 3.1-1-68							200	5,287	5,487
45 IAC 3.1-1-7								8,803	8,803
45 IAC 3.1-1-72					154,146				154,146
45 IAC 3.1-1-8	4,791	3,739,975	1,488,483	148,286	367,828	238,076	960,751	593,247	7,541,437
45 IAC 3.1-1-9	(16,547)	(4,690,202)	(261,331)	(28,598)	(382,038)	(351,799)	(17,239)	152,362	(5,595,392)
45 IAC 3.1-1-91	510					4,264		(10,410)	(5,636)
45 IAC 3.1-1-92	700	835,300	300		87,215		(6,807)	(3,416)	913,292
45 IAC 3.1-1-94	1,225	(5,599)	37,377	895	78,686	70,498	5,427	219,970	408,479
45 IAC 3.1-1-96							28,345		28,345
45 IAC 3.1-1-97	133,123	8,873	4,553	867	96,936	(180)	47,483	249,308	540,963
45 IAC 3.1-1-99	(56)								(56)
45 IAC 3.1-2-1		511,430			2,346			51,700	565,476
45 IAC 3.1-2-2			1,060		12,621			2,153	15,834
45 IAC 3.1-3-1	321				183			1,190	1,694
45 IAC 3.1-3-2	8		579		1,013		411	126	2,137
Grand Total	163,134	1,115,548	2,272,298	268,178	1,080,985	2,442,778	2,460,025	1,709,157	11,512,104

**ADJUSTED GROSS INCOME TAX VIOLATIONS BY INDUSTRY GROUP**



**ADJUSTED GROSS INCOME TAX DOLLARS ASSESSED BY INDUSTRY GROUP**

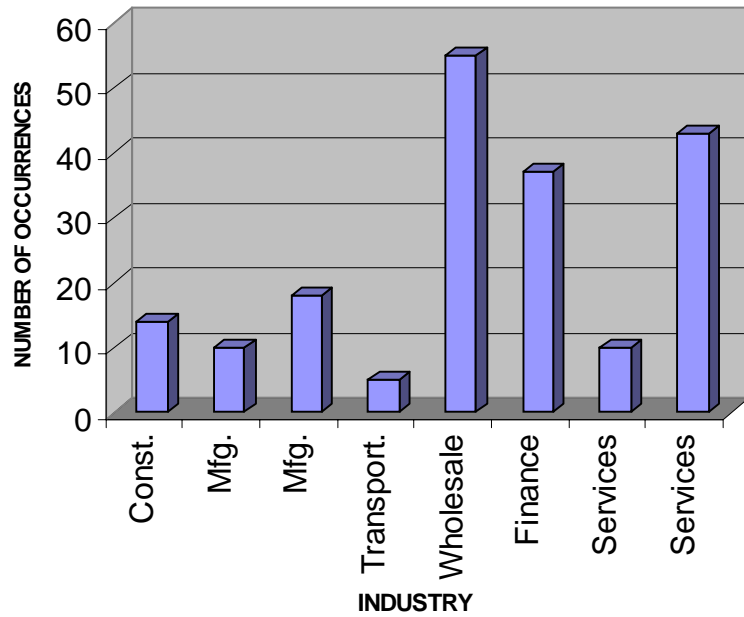


# EXHIBIT F

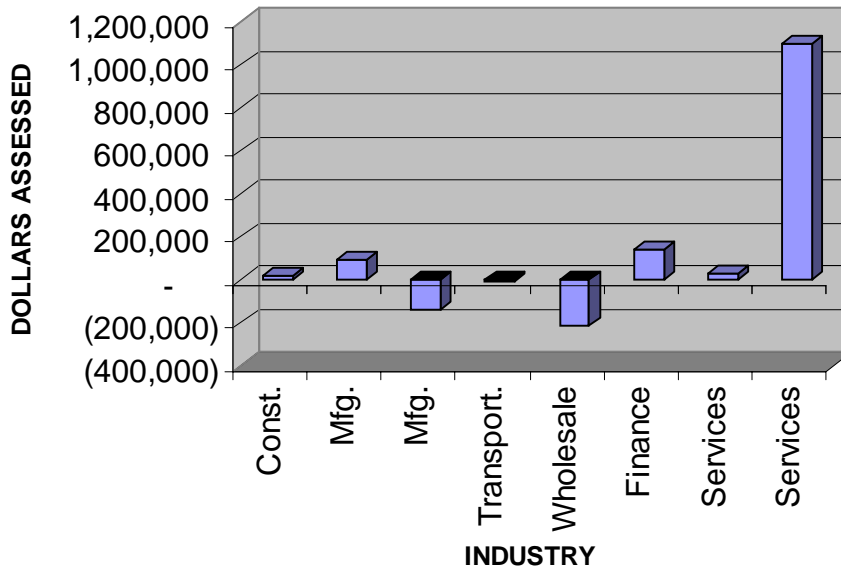
## Dollars Assessed for Miscellaneous Violations by Industrial Code

Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Results	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
45 IAC 15-11-2	888				250		570	500	2,208
45 IAC 15-11-3								1,138	1,138
45 IAC 15-4-1					88,127				88,127
45 IAC 15-5-1	9,330				48,244			90,522	148,096
45 IAC 15-5-7					4,674			(12,666)	(7,992)
45 IAC 15-5-8					224,767				224,767
45 IAC 15-9-1	3,572		(4,401)		1,415			8,949	9,535
45 IAC 15-9-2			(44,696)	(6,921)	(101,602)		11,663	16,786	(124,770)
45 IAC 17-2-1						49,348			49,348
45 IAC 17-2-3						8,780			8,780
45 IAC 17-2-4				1,828					1,828
45 IAC 17-2-6						(237)			(237)
45 IAC 17-3-1						(85,923)		(5,051)	(90,974)
45 IAC 17-3-10						600			600
45 IAC 17-3-4						(19,865)			(19,865)
45 IAC 17-3-5						(11,300)			(11,300)
45 IAC 17-5-1						(6,500)			(6,500)
45 IAC 18-2-3					2,000			5,525	7,525
IC 13-20-13-7				183	1,101				1,284
IC 6-2.1-3-32								(54,628)	(54,628)
IC 6-2.5-5-35					(131)		(220)		(351)
IC 6-2.5-5-36			(1,311)						(1,311)
IC 6-3.1-13-18			(50,567)						(50,567)
IC 6-3.1-4-1	5,300	(3,873)							1,427
IC 6-3.1-4-2		(1,759)	(500)						(2,259)
IC 6-3.1-7-1						26,939		122,035	148,974
IC 6-3.1-9-2					3,058				3,058
IC 6-3-2-12	97	108,424	45,521		(496,990)	(2,278)	(1,167)	(26,356)	(372,749)
IC 6-3-2-14					(3,666)				(3,666)
IC 6-3-3-10		(4,500)	(85,705)					3,949	(86,256)
IC 6-3-4-6		(6,310)							(6,310)
IC 6-5.5-1-18						(322,147)		(364,594)	(686,741)
IC 6-5.5-1-2						50,643			50,643
IC 6-5.5-2-1						299,094			299,094
IC 6-5.5-2-4						(23,635)			(23,635)
IC 6-5.5-4-2								40,966	40,966
IC 6-5.5-4-3						4,867			4,867
IC 6-5.5-4-4						76,947		9,465	86,412
IC 6-5.5-4-8						47,227			47,227
IC 6-5.5-4-9						39,121		1,206	40,327
IC 6-5.5-5-1			2,508			329,682			332,190
IC 6-5.5-6-1						(64,202)		1,229,250	1,165,048
IC 6-6-9-7							700	592	1,292
IC 6-8.1-4-2		(523)	(1,198)		1,770	(260,210)		(1,023)	(261,184)
IC 6-9-12-3					24,922			29,097	54,019
IC 6-9-18-1							20,914		20,914
IC 6-9-20-3					7,176				7,176
IC 6-9-21-6					700				700
IC 6-9-23-4					(19,810)				(19,810)
IC 6-9-26-6					(1,217)				(1,217)
IC 6-9-3-4					1,143				1,143
Grand Total	19,187	91,459	(140,349)	(4,910)	(214,069)	136,951	32,460	1,095,662	1,016,391

**MISC. CODE VIOLATIONS BY INDUSTRY GROUP**



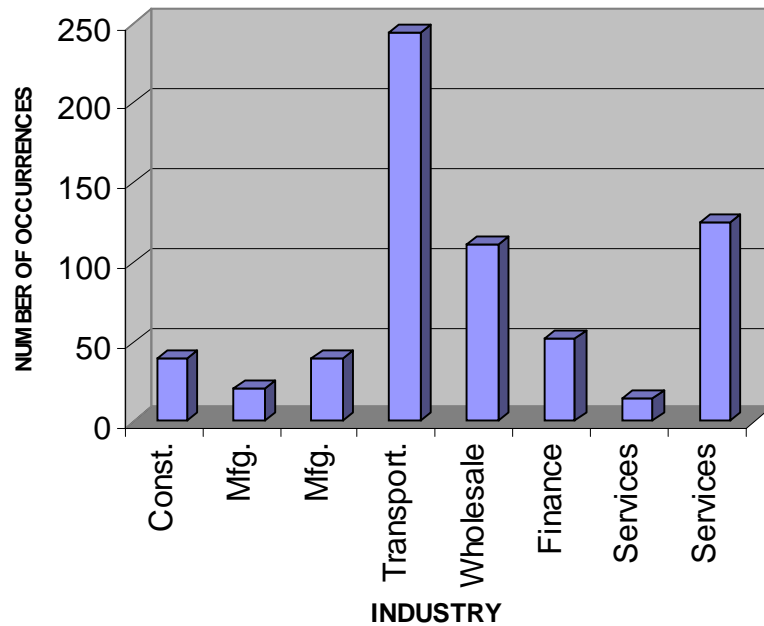
**MISC. CODE DOLLARS ASSESSED BY INDUSTRY GROUP**



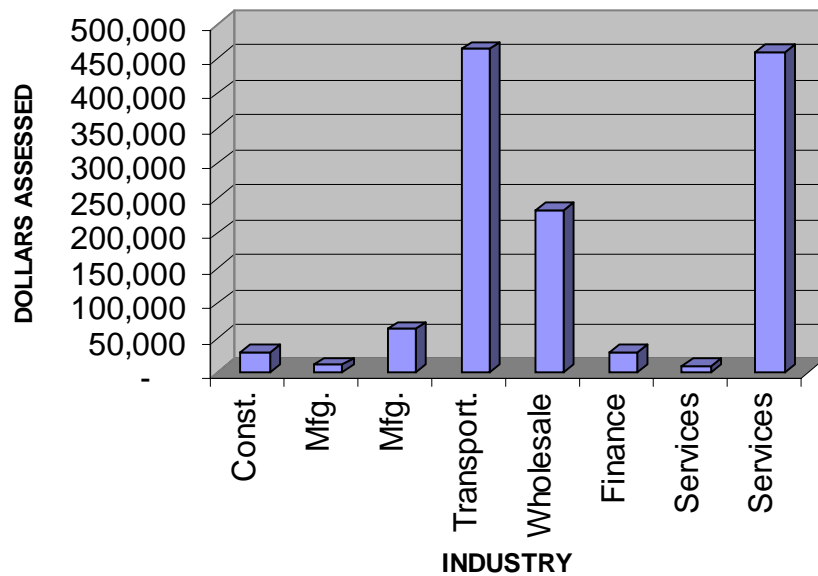
**EXHIBIT G**  
**Dollars Assessed in Code and Article Citations by Industrial Code**  
**Special Tax Audits**

Industrial Code	Const.	Mfg.	Mfg.	Transport.	Wholesale	Finance	Services	Services	
Sum of Results	SIC								
Citation	1	2	3	4	5	6	7	8	Grand Total
A550				2,333		689			3,021
IC 16-44-2-18		7,149			4,369			4,113	15,631
IC 6-6-1.1-201		4,963			270	10,819		115	16,167
IC 6-6-1.1-301								7,200	7,200
IC 6-6-1.1-705					42,799				42,799
IC 6-6-2.1-501					1,675				1,675
IC 6-6-2.5-28					9,485			8,340	17,825
IC 6-6-2.5-30					19,442			704	20,146
IC 6-6-2.5-32								(1,832)	(1,832)
IC 6-6-2.5-35					5,940				5,940
IC 6-6-2.5-37					19				19
IC 6-6-2.5-40				4,800					4,800
IC 6-6-4.1.2								326	326
IC 6-6-4.1.6								(286)	(286)
IC 6-6-4.1-10				5,126					5,126
IC 6-6-4.1-12				25					25
IC 6-6-4.1-2								29,975	29,975
IC 6-6-4.1-4	638	245		13,293	8,839	174		990	24,180
IC 6-6-4.1-6	479	(92)		(26,456)	(1,671)	(186)		(295)	(28,222)
IC 6-6-7-2								673	673
IC 6-7-1-1					93			2,465	2,558
IC 6-7-1-19					151,695			117,599	269,294
IC 6-7-2-12								45	45
IC 6-7-2-7					(39,430)			3,541	(35,889)
IC 6-8.1-5-1	6,138							985	7,123
IC 7.1-4-2-1		973			13,187			7,305	21,465
IC 7.1-4-3-1					(15,320)				(15,320)
IC 7.1-4-4-2					140				140
IC 8-2.1-20-7					20			280	300
IRP Article II-204	1,592				3,607				5,199
IRP Article XV-1502	6,362		17,874	268,262	1,424			35,494	329,416
IRP Article XVII-1700	(720)		47,963	117,814	14,249	4,341		19,474	203,122
R1000	(5,850)	(1,486)	(6,036)	(104,149)	2,015	12,302	705	24,440	(78,057)
R1200	104								104
R550						54			54
R800	8,098	(1,150)	2,607	64,380	9,489	(3,702)	8,419	198,619	286,760
R810	4,889			109,984	(208)	5,180			119,846
R970	8,487			8,092		53			16,632
Grand Total	30,217	10,602	62,408	463,504	232,128	29,724	9,124	460,271	1,297,978

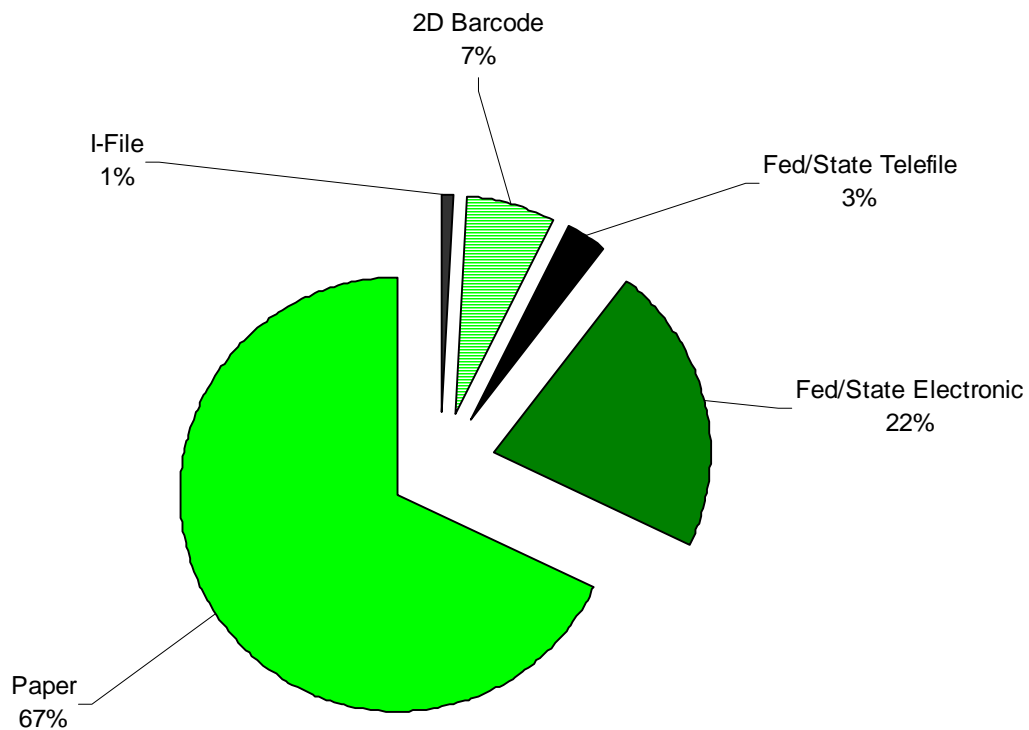
**SPECIAL TAX VIOLATIONS BY INDUSTRY CODE**



**SPECIAL TAX DOLLARS ASSESSED BY INDUSTRY GROUP**



# 1999 Individual Returns Processed



## 1999 Returns

I-File	24,928
2D Bar Code	188,946
Fed/State TeleFile	81,800
Fed/State Electronic	605,347
Paper	1,909,517
<b>Grand Total</b>	<b>2,810,538</b>



## NOTES

## NOTES

## NOTES

## NOTES

## NOTES

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